IDEAS ON LIBERTY

- The Census: Inquiring Minds Want to Know a Lot
- The Dangers of Growing Up Comfortable
- Trust and Privacy on the Net
- Economic Repression in Cuba

MAY 2000

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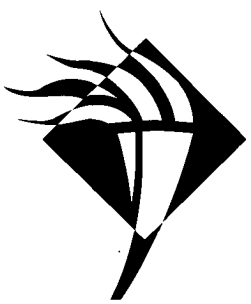

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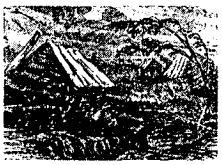

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PERSPECTIVE

Unworthy of the Name

When's a tax cut not a tax cut? When it's a *targeted* tax cut. That is the new euphemism for government's manipulation of people's behavior with the tax code. Government can get us to do things in several ways, including decree, subsidy, tax credit, and tax deduction. The last two are particular favorites of the current occupant of the White House. All those methods aim at getting people to do what they apparently wouldn't do otherwise. (Or else why is the inducement needed?) The analysis gets tricky, however, because people might have done some of the things government rewards if they weren't taxed in the first place.

For example, the government can offer a tax deduction for saving money. As a result, people might save more than they would have without the deduction. But they might have saved the higher amount and even more if there were no taxes at all. No one can know that, however, least of all politicians and bureaucrats. Besides, there's an easier way to get people to behave as they would if taxes were closer to zero: cut taxes!

Another objection to targeted tax cuts is that the politicians have no way of knowing if they are "buying" *too much* of the favored conduct. They are fond of giving deductions and credits to people who save for their children's college education. But how do we know that parents aren't buying too much education? For the policymakers, there is no such thing as too much education. But of course there is. Every choice has a tradeoff.

The point is that government's manipulation of behavior by tax code is no better than manipulation by cash subsidy or direct order. Politicians shouldn't be allowed to count "targeted tax cuts" as true tax cuts. Since they impose a *cost* on the taxpayer—the opportunity forgone by engaging in the government's prescribed behavior—they add insult to injury by implying that it was the government's money all along.

Only unconditional tax cuts are worthy of the name.

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* * *

Does capitalism carry the seeds of its own destruction? Some thinkers have wondered if the free market's bounty can become so commonplace that people forget what is required for its continuation. Steven Yates takes a fresh approach to the question by examining it at the level of an individual family.

The Internet has prompted a good deal of concern about privacy in the electronic age. Daniel Klein puts that concern through the prism of the marketplace and comes up with some reassuring conclusions.

The electronic age has produced something else: new opportunities for government to impose taxes. It's not just a bad idea, write Richard Ault and David Laband; it's ultimately futile.

In 1811 an earthquake of record strength hit North America. The government did not spring into disaster-relief mode, as it would do today. Therein lies a lesson, drawn by Janet Sharp Hermann.

Champions of the free market often praise its ability to direct resources to their "highest valued uses." Can it be so? Roy Cordato says the claim rests on insidious premises.

Regulation is bad enough. But M. Reed Hopper writes that there is something even worse: a regulatory state that can change the rules anywhere anytime.

Karl Marx promised a new man under socialism. He was right in a way he never dreamed. Patricia Linderman, who lived in Cuba for several years, describes the toll that the denial of economic freedom has exacted.

The environmental movement as we know it emerged in 1969 from the flames on a river in Ohio. For many, that burning river was a symbol of industrial capitalism and proof that government must protect the natural resources. Neither was true, as Stacie Thomas demonstrates.

Can space exploration be left to decentralized private efforts? Timothy Sandefur finds an analogy that points to the answer: *Star Trek.*

It's good for government to privatize operations that belong in the marketplace. But unless it does so all the way, the taxpayers will still be on the hook. Christopher Mayer explains.

Before we can know if government works for the common good, we have to know what the common good is. Edward Younkins unpacks this much-abused concept.

Government programs come dressed up in the rhetoric of the general welfare. But as Roger Clites reminds us, they all come down to one thing.

Our columns burst with insights this month: Donald Boudreaux looks at the marvel of the market in a unique way. Lawrence Reed doesn't like what the Census Bureau plans to count this year. Doug Bandow evaluates America's East Asian policy. Dwight Lee calls for freedom of the price. Thomas Szasz revisits psychiatry's paradigmatic disease. Mark Skousen ruminates on the phenomenon of greed. Charles Baird brings sense to the discussion of the wealth gap. And your editor, inundated with claims that campaign-finance controls will cure government of corruption, bellows, "It Just Ain't So!"

This issue's reviewers pass judgment on books about government's treatment of its citizens, World War I, Justice Clarence Thomas, unions, "turbo-capitalism," development economics, and the decline of great universities.

—SHELDON RICHMAN

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Thoughts on Freedom

by Donald J. Boudreaux

IDEAS ON LIBERTY
MAY 2000

Mutual Accommodation

In *The Future and Its Enemies*, Virginia Postrel notes the astonishing fact that if you thoroughly shuffle an ordinary deck of 52 playing cards, chances are practically 100 percent that the resulting arrangement of cards has never before existed. *Never*. Every time you shuffle a deck, you produce an arrangement of cards that exists for the first time in history.

The arithmetic works out that way. For a very small number of items, the number of possible arrangements is small. Three items, for example, can be arranged only six different ways. But the number of possible arrangements grows very large very quickly. The number of different ways to arrange five items is 120 . . . for ten items it's 3,628,800 . . . for fifteen items it's 1,307,674,368,000.

The number of different ways to arrange 52 items is 8.066^{67}. This is a *big* number. No human can comprehend its enormousness. By way of comparison, the number of possible ways to arrange a mere 20 items is 2,432,902,008,176,640,000—a number larger than the total number of seconds that have elapsed since the beginning of time ten billion years ago—and this number is Lilliputian compared to 8.066^{67}.

A Multitude of Options

What's the significance of these facts about numbers? Consider the number of different resources available in the world—my labor, your labor, your land, oil, tungsten, cedar, coffee beans, chickens, rivers, the Empire State Building, Windows 2000, the wharves at Houston, the classrooms at Oxford, the airport at Miami, and on and on and on. No one can possibly count all of the different productive resources available for our use. But we can be sure that this number is at least in the tens of billions.

When you reflect on how incomprehensibly large is the number of ways to arrange a deck containing a mere 52 cards, the mind boggles at the number of different ways to arrange all the world's resources.

Of course, the vast majority of these ways are useless. For example, one possible arrangement would have me holding a scalpel in an operating room as I prepare to perform heart surgery on a patient. This would be a regrettable arrangement, for I have no medical training. A drink made of vermouth mixed with kerosene and served in a sugar cone would be another unfortunate combination—as would a steel mill whose receiving docks are loaded not with iron ore but with bales of cotton.

If our world were random—if resources combined together haphazardly, as if a giant took them all into his hands and tossed them down like so many dice—it's a virtual certainty that the resulting combination of resources would be useless. Unless this chance arrangement were quickly rearranged according to some productive logic, nothing worthwhile would be produced. We would all starve to death. Because only a tiny fraction

Donald Boudreaux is president of FEE.

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of possible arrangements serves human ends, any arrangement will be useless if it is chosen randomly or with inadequate knowledge of how each and every resource might be productively combined with each other.

Bottom-Up, Not Top-Down

How, then, to select from all the *possible* arrangements of resources those relatively few that serve human ends? Central planning won't do. To see why, assume that there aren't tens of billions of resources in the world, but a mere 20. Again, the number of possible ways to arrange 20 resources is greater than the number of seconds that have existed since the beginning of time. No human intelligence can even survey all of these possible arrangements, much less evaluate the objective properties of each arrangement. (For example, will this seed corn grow better on plot of land A or on plot of land B? Will Bill Gates be more effective at designing computer software or designing women's lingerie?) When you add to this impossibility the central planner's immensely greater difficulty of learning each person's tastes, preferences, and dreams, the prospect of having a person or committee select wisely from among the 2,432,902,008,176,640,000 possible arrangements of only 20 resources is revealed as utterly futile. Imagine, then, the impossibility of this task given that the world's resources number in the tens of billions.

And yet, we witness all around us an arrangement of resources that's productive and serves human goals. Cotton bales are not delivered to steel factories; Bill Gates does not design women's lingerie; television cabinets are not made of caramel. Today's arrangement of resources might not be perfect, but it is vastly superior to most of the trillions upon trillions of other possible arrangements.

How have we managed to get one of the minuscule number of arrangements that work? The answer is private property—a social institution that encourages mutual accommodation.

Private property eliminates the possibility that resource arrangements will be random, for each resource owner chooses a course of action only if it promises rewards to the owner that exceed the rewards promised by all other available courses. For each consumer, this means spending money on those items that best satisfy his individual tastes. For each producer, this means finding those uses that promise the highest profit. Because profit in free markets comes from satisfying as many consumers as possible, each producer is forever on the lookout for better ways to use his resources to satisfy consumers.

Put differently, a private-property regime rejects top-down direction from government. Instead, decisions about how each resource is to be used are left in the hands of each resource owner, who surveys the economic landscape within his purview to see if and how he can better deploy the resources at his disposal in ways that make the resources of other people more valuable. If he succeeds, his resources as well as those of countless others are made more valuable. Because private property gives to each resource owner (including people who own nothing but their own labor) both the power to reject offers that are unattractive relative to other options, and the incentive to use their resources in ways that do most to help others, the result is a system of peaceful, mutual accommodation.

Hayek rightly called this result a "marvel." It is a breathtakingly complex and productive arrangement of countless resources. This arrangement emerged over time (and is still emerging) as the result of billions upon billions of individual, daily, small decisions made by people seeking to better employ their resources and labor in ways that other people find helpful. Despite being unplanned, the order itself is governed by a strict logic—that of mutual accommodation—a logic contained only in the institution of private property. □

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IDEAS ON LIBERTY
MAY 2000

Campaign-Finance Reform Will End Corruption?

It Just Ain't So!

People with an investment in government power will torture logic like a medieval inquisitor rather than face the facts. Consider campaign-finance reform.

The standard reformist wisdom is that campaign contributions corrupt the democratic process: Candidates need money to run for office. Corporations and wealthy folks offer to provide the money in return for favors when the candidates take or resume office. Politicians pay their debts by writing tax loopholes, subsidies, and other goodies into law. The "little guy" can't compete in the bidding for favors and, worse, ends up financing the payoffs to the big contributors.

The proffered solutions to this problem range from strict limits on contributions all the way to a ban on them, with campaigns financed by the taxpayers.

The public hasn't shown much interest in the matter. But it's a favorite of reporters, pundits, and editorial writers, whose influence, coincidentally, would be magnified if campaigning were restricted. *Time* magazine ran a cover story February 7 by the famous reporting duo Donald Bartlett and James Steele, the first in an occasional series titled "Big Money and Politics: Who Gets Hurt?" The editorial pages of all the major newspapers have solemnly weighed in on this threat to the republic. Typical was the *Washington Post* of February 4 in a discussion of presidential candidates (whose names have been elided so as not to imply a dignity they do not warrant): "The scope of market freedom is defined not just by how much government meddles with business, but also by how much business meddles with government—by lobbying, by slipping loopholes into legislation and by the other corrupt practices. . . . One goal of the reform . . . is to curtail the lobbying system that exists precisely to ensure that favors and distortions continue to flourish."

Before getting to the meat of the matter, let's consider the solutions to this problem. Limits on contributions are limits on peaceful (though probably not creative) activity. In a free society you wouldn't expect it to be illegal to give as much money as you wish to someone else so that he can campaign, that is, *speak* to voters in an effort to get elected. Participating in campaigns, even by giving money, looks like a form of expression protected by the doctrine of natural rights and reflected in the First Amendment to the U.S. Constitution. In a Supreme Court ruling upholding a state's contribution limits last winter, Justice John Paul Stevens wrote, "Money is property; it is not speech." That's too glib. Speech may require spending money. Surely Justice Stevens would not overlook other restrictions on the use of money that had the effect of suppressing speech. Besides, why should property receive less protection than speech? Ultimately, the right to engage in speech is a property right, since it includes the use of property, beginning with one's larynx and the spot on which one stands.

The idea of having the taxpayers pick up the tab for campaigns is so outrageous it's hard to believe anyone really favors it. You'd think that even the watered-down notion of a free society most people accept today would include the freedom to *abstain* from contributing to candidates. Thomas Jefferson said compelling a person to support a cause he disagrees with is "sinful and tyrannical." I can't even imagine a rebuttal. Being forced to give money to politicians one despises is the kind of thing that would have driven the Founders to revolution had taxation alone not done the trick.

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It doesn't take much intelligence to see that limits or bans on contributions must help incumbents at the expense of little-known challengers. Considering, as James Payne has written, that incumbents become bigger spenders the longer they are in office, this is bad news to anyone wishing to see government power curtailed.

If the solutions are ghastly, the grasp of the problem is worse. To paraphrase: People buy government favors through campaign contributions, so let's restrict or outlaw campaign contributions. What's missing from this picture? The favors that politicians have the power to sell, of course.

It hasn't occurred to the reformers that if politicians had nothing to sell, no one would be buying. On the other hand, if there is something to sell, outlawing its purchase won't put a stop to the trading. (See the War on Drugs.)

We live in a country where politicians can arrange for particular interests to get tax exemptions, cash subsidies, and other favorable special treatment from the tax and regulatory machinery. As long as that's so, people will eagerly invest money in the politicians most likely to make such arrangements. They will also invest to *prevent* politicians from doing them harm. Fred McChesney describes this phenomenon in his aptly titled book *Money for Nothing.* (I hasten to note that there is an immense moral difference between paying to stave off state aggression, for example, buying a tax loophole, and paying to get a subsidy—someone else's money.)

The irony is that the very people who decry the corruption of money in the political system wish to expand the scope of government and give it more favors to sell. How can they propose that government be a comprehensive service center, then object when people try to buy its services?

This is an old story. Frederic Bastiat wrote about it in *The Law* (1850), pointing out that legalized plunder and the distribution of booty go hand in hand. Trying to separate them is like trying to have fire without smoke. (See Lawrence Reed's column in this issue for Bastiat's own words.) In *The Road to Serfdom*, Hayek wrote, "In a planned society we shall all know that we are better or worse off than others, not because of circumstances which nobody controls, and which it is impossible to foresee with certainty, but because some authority wills it. And all our efforts directed toward improving our position will have to aim, not at foreseeing and preparing as well as we can for the circumstances over which we have no control, but *at influencing in our favor the authority which has all the power*" (emphasis added). Hayek was referring to a society in which government presumes to plan all economic affairs. But the principle is in force when the government's ambitions are more modest. If the government has make-or-break tax and regulatory power over business, potential beneficiaries and victims will look after their interests.

The opposite principle follows: if government is scaled down to, at most, constitutional dimensions, the campaign finance issue will vanish. But the people who feel our pain can't conceive of a government without favors. Thus they refuse to see that *they*—not money—are the source of the corruption.

H. L. Mencken reduced political science to a single pregnant sentence when he wrote, "every election is a sort of advance auction sale of stolen goods." The rest is elaboration.

There's a simple way to keep money out of politics: keep politics out of our money.

—Sheldon Richman

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IDEAS ON LIBERTY
MAY 2000

The Dangers of Growing Up Comfortable

by Steven Yates

We begin with a sort of parable.

There lives in a typical American suburb a fellow I will call Floyd. Floyd was born shortly before the Great Depression. His parents were unemployed for several of those years. Money was extremely tight. As a child, Floyd knew what hunger was. He worked at whatever he could do to help out the family, no matter what the new child labor laws said. He carefully saved every penny, and in so doing, he learned to be frugal. What you earn, you don't spend frivolously. You save as much as you can.

As Floyd grew up, he developed a natural understanding of money and wealth. He never assumed the world owed him anything, because nothing in his personal experience suggested that. He'd seen his parents struggle and skimp and scrape, and he'd learned to do so himself.

As an adult in the 1950s, Floyd began to do very well for himself. He got married in his twenties. Though earning first four, then five, and eventually six figures a year, his habits of frugality stayed with him. He and his wife lived in a modest house, with modest furniture. The two of them began to build up a substantial savings account. Floyd made some cautious investments in the stock market, and watched the assets of what would be his legacy to his family steadily climb. Whatever his net worth, however, he kept a very close eye on where his money went and what it was doing. This was force of habit. It never occurred to him that anyone would do otherwise.

Now sometime during the early 1950s Floyd and his wife had a son, Eric. As a child, Eric had most everything he wanted. Floyd was determined that his son would not grow up hungry and struggling the way he had. So Eric lived in surroundings that were entirely different from those of his father at the same age. Instead of a tiny, cramped apartment in which half of the appliances didn't work, Eric's environment was a comfortable house in a middle-class subdivision. During his childhood and early teen years, money wasn't a problem. He didn't know where it came from but there always seemed to be plenty of it. Unlike his father, Eric came to take it for granted. He loved, for example, to spend the money his parents gave him on stereo equipment, records, a new bicycle, and so on.

When Eric turned 16 his father wanted him to get a job to begin paying some of his own expenses. Eric resented it but got the job. At work he chafed at the tasks demanded of him. He did not like following rules set by bosses who were strangers. He did not save the money he made but spent it on a girlfriend, taking her to a plush restaurant he liked. Finally he lost his job one day because of his poor attitude. He had trouble getting another one, simply because the economy had taken a downturn

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and jobs he was qualified for were scarce. Eric couldn't understand any of these things. He thought he should be hired anyplace he wanted, simply because of who he was. He believed would-be employers should care about him personally, the way his parents did.

Owed a Living

In other words, though he wouldn't have put it this way, Eric had come to believe the world owed him a living—or, at the very least, he ought to be able to obtain money without working for it. At least part of his experience seemed to confirm this. After all, money had always been plentiful, hadn't it? Why should it be so difficult to obtain now? And why did everything he made at the few jobs he'd had seem to slip through his fingers like water?

As a young adult with a university degree, Eric silently resented his job; his resentment was silent because insubordination and sarcastic comments had already cost him a couple of potentially good jobs, and he had learned that silent resentment has more survival value than open resentment.

He was constantly frustrated, however. He looked forward to vacations on the beach with his friends. He and his latest girlfriend ate out a lot. His money still seemed to disappear. With little knowledge of how to manage his money, he couldn't have told you how much he had in his checking account at any given time. He had no idea how to calculate his own tax returns. His credit card debt was threatening to spiral out of control. He hadn't started any kind of a savings plan, as Floyd had done at the same age. Retirement seemed a long way off in the future. Eric was present-oriented, not future-oriented. But since he didn't have a very good job—hadn't wanted to go to the trouble of finding one—he still had to borrow money from his parents from time to time, usually around holidays or when his automobile insurance payments were due. Floyd did his son's tax returns for him. Eric had to borrow still more money, after accidentally rear-ending another automobile, because he had no reserve cash on hand to deal with such an unanticipated jump in his insurance rates. Nor had he the money to pay the medical bills for the chronic headaches and backaches he had begun having.

Floyd couldn't understand what Eric's problem was. Never had. Eric was becoming a major unanticipated expense in his own right. This was the one thing in Floyd's life he hadn't counted on. Why couldn't the kid assume some responsibility, as he had done when he was younger? Why did he resent working so much? Why did he have no savings account worth speaking of? Why did he spend all his money like there was no tomorrow? Why was he so utterly uninterested in money, except when he needed to borrow some from his parents? And what would he do when the well ran dry, as eventually it would at this rate?

An aging Floyd is baffled by Eric's behavior, and sometimes lies awake at night wondering if *he* has done something wrong.

Lessons

In this parable are some important lessons.

Prior to the lessons, though, it is useful to rehearse some preliminaries. The free market has been the greatest engine of wealth creation and distribution the world has ever seen. Every scholar worthy of that name now realizes this. During the 1900s various kinds of socialism and welfare-statism were tried and failed. As brutal dictators held sway over stagnant economies, they brought only misery to their people. Only the capitalist West had broken out of the cycle of stagnation and grinding poverty by discovering the value of economic freedom, rooted in such ideas as the natural rights of persons to keep the fruits of their labors and trade voluntarily with others in value-for-value exchanges. Picture Floyd surviving by buying, say, candy or shirts with what little money he had and then reselling them for a profit. In a communist country, had he been caught doing this he would have been in serious trouble. In our capitalist one, he not only was not penalized for his industry and thrift, but was learning valuable lessons about how a free economy works.

The first lesson Floyd learned is that the world does not take care of the individual. In a free-market society, with some limitations,

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individuals are expected to take care of themselves. Those who rise to the occasion prosper. Those who do not rise to the occasion suffer the consequences of inaction. Rising to the occasion here means learning the first law of the marketplace: that one can only serve one's own needs and interests and improve one's own standard of living by helping others serve their interests—providing them with a good or a service they want and are able and willing to pay for.

A second lesson Floyd eventually learned is that divisions of labor make it far easier for a group of people working together to help others obtain what they want and are able and willing to pay for. Thus the formation of companies makes it easier to create larger amounts of wealth. Floyd learned these lessons in his childhood. They became instinctive, a part of him. He might not have been able to explain it. He had become a businessman, not an economist or a philosopher. He was a doer, not a talker.

Floyd's third lesson was that wealth does not consist merely of the change he carries around in his pocket but includes stored-up assets. The latter do not fall from the sky, or appear as a result of some inexplicable, miraculous force. In a world that does not take care of the individual, wealth can only result from a careful plan of savings devised by each person. Even if one can keep the fruits of one's labors, if they are immediately spent they won't generate wealth. Wealth is created when one consistently saves or invests a percentage of the fruits of one's labors over a number of years and allows it to grow.

However, there are a few things Floyd didn't learn, and these are less obvious. They help explain how and why Eric went astray. They might explain why a percentage of the generation Eric grew up with has remained attracted to socialism despite its catastrophic results.

The lessons Floyd learned he learned through personal experience—what some call the "school of hard knocks." These lessons of life are not easily communicated to one's offspring. The difference is between merely talking about a sequence of events and actually living through them. Eric, it is clear, faced none of the struggles his father had faced. He never went hungry. As a child he'd never worked to survive—never even been required to do daily or weekly chores, like clean his own bathroom or bedroom. His parents did most everything for him except his schoolwork. While occasionally they told him he should do more things for himself, they never followed through on it, so as Eric got older he took his parents and their labors on his behalf for granted.

He never questioned where money came from, but assumed it would always be there. When he was told to go out and earn it, he rebelled—instinctively. He couldn't understand the changes he was being compelled to adapt to: changes from a home life where he had been protected to a work life with no such protections. Eric was no economist or philosopher, either. He had no curiosity about where wealth came from. He just expected it would always be there—and that others would take care of him as his parents had.

Traps for the Unwary

These stereotypes of Floyd and Eric are just that: stereotypes. And to defenders of free markets, the above lessons are common knowledge. But there nevertheless are a few traps for the unwary, and it is important not to fall into them. The most important trap here is the belief that the comfort and safety of the prosperity generated by markets is necessarily good for those who grow up with it.

Human beings are not exclusively rational creatures. Many intellectuals who have produced rational defenses of free markets (for example, Ayn Rand) have always simply assumed that "perfectly rational man" is a uniquely human ideal. But as philosophers from David Hume down through economists such as F. A. Hayek never failed to point out, we are all far more creatures of habit than we think—especially if these habits have "worked." Many of our most successful endeavors as a society revolve around traditions that developed spontaneously through the accumulation of the habits of a multitude of people. Some of these habits remain relatively fixed; others change in response to new

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conditions, new ideas, or new inventions that have proved their worth and become of value to the people. Invariably, this is the reason an economy cannot be effectively planned, or micromanaged. None of the specifics can be predicted in advance. (Who, for example, could have predicted the meteoric rise of the World Wide Web?) The problem is complexity—the working out of the results of a multitude of variables only a small fraction of which can be observed by any one person or any group of persons at a given time.

Where do habits come from, and what does it mean to say that they "work"? Habits are consistent patterns of action. They work if they solve the problems a person actually faces. They become almost automatic if they yield stability in a person's life over a long period—perhaps over a lifetime. The habits one develops, and whether or not a given habit will work, depend quite a bit on one's environment.

We have to be very careful when we talk about the relationship between a person and his environment. There probably is no such single relationship. It will vary from person to person. We are safe in saying that the environment is not everything. That is, it is not the complete determinant Marxists and other socialists would have us believe. But neither is it nothing. As an explanatory tool for why some young people continue to believe in socialism despite the avalanche of evidence against it, or merely why one person succeeds and another fails, knowledge about the way the person was raised could be very helpful.

One's immediate or proximate environment creates the problem set a person encounters—perhaps in childhood. If a person encounters and solves problems directly connected to skills of earning a living and building up assets, then these translate into habits that ensure a prosperous life later (barring, of course, acts of God or arbitrary edicts imposed by a political system that change all the rules).

A person who encounters no significant problems of this sort may never see the need to develop these habits, which are habits of thought as well as of action. Then when his environment changes—as it will, when he leaves the "nest"—he will not have developed the survival skills he needs.

Too Much Nurturing?

It is both true, and necessary, that one's family be nurturing in the sense of providing helpless infants and small children with the basic necessities of life. But a family environment can be *too* nurturing. It is too nurturing if it does not teach the maturing child anything about what wealth is and where it comes from—if it simply *gives* the child what he wants out of a well-intentioned but misguided need to protect. Parents who always "do things to help" the child can be too nurturing, and can even discourage the child from acting on his own. The environment will not create problems the child has to solve and can learn from. Thus the child does not learn that inaction has consequences.

So while Floyd applied a lot of important truths about money and wealth to his own life, he assumed that Eric would acquire these truths automatically, as if by osmosis (or perhaps learn them in school). As a result, however much his own personal lifestyle as a businessman rejected welfare-statism in principle, he unintentionally allowed his family to become a kind of welfare state in microcosm. Eric grew up too comfortable. His life illustrates the dangers of too much comfort too soon. These are the dangers of wealth and well-off circumstances, passed down instead of earned: the children can become the family equivalent of a country's welfare recipients. When the time comes, they find it difficult to learn as young adults the lessons their parents learned in childhood. They may bitterly resent having to earn their own living. It is clear that resentment against the need to earn one's own living lies behind a lot of modern socialist thinking. (This might explain why socialists have tended to concentrate in modern research universities. Kept safe by tenure in the surrogate parent of the modern research university, academe's socialists exist, or subsist, in a proximate environment without any real economic threats or problems.)

What could Eric have done differently? He never faced the problems his father had. To be

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sure, when he realized he was having trouble keeping jobs when others didn't, his reason should have told him something was wrong. But Floyd had effectively held him back by never having sent him a consistent message about the importance of work and of taking care of himself instead of relying on someone else. This message remained in place, as Floyd continued to bail him out of jams when he became an adult.

What could Floyd have done differently? Hindsight, of course, is always 20/20. But Floyd should have taught his son the value of dollars and cents in ways similar to the lessons he'd once learned. He should have put Eric on a strict allowance, for example, with amounts in direct proportion to his having done specific chores such as clean his bathroom or bedroom, or having worked in the kitchen. And then if Eric spent his allowance and found himself wanting something but having no money to pay for it, that was too bad. Floyd's best course of action would have been to explain to Eric how his present lack illustrates the benefits of saving his allowance over spending it. Saving rather than spending requires two important skills of wealth-building: frugality and self-discipline. Self-discipline means learning to tell yourself *No*. Wanting something is not a reason for immediately going out and spending money to get it.

Floyd and his wife should not have allowed Eric to pick up the message that comfortable surroundings are automatic. If they had begun the lessons early enough, Eric would have learned to take for granted that he had to begin mastering his environment in stages—it is not the responsibility of others, including his parents. Another skill of wealth-building is being able to control the relevant aspects of your environment instead of being controlled by them or watching as they go to pieces. The only way to control your environment is to take necessary actions and then work at transforming them into habits. (The adult Eric's bathroom, bedroom, and kitchen, one can be certain, are absolute messes!)

Floyd could have taught Eric that initiative leads to reward. Should Eric have gone beyond what was originally called for—for example, by doing yard work—then Floyd could have rewarded him with bonus pay. Action is always better than inaction. Develop a goal and a consistent strategy for reaching that goal; judge actions by whether or not they help achieve the goal. Such are the keys to successful living. Communicating these ideas to one's young is likely best achieved by requiring them to live the ideas consistently, rather than simply *giving* them the fruits of one's own labors. Some successful people have recognized this, establishing relatively small trusts for their children in their wills and arranging to give the rest to charitable causes when they pass away.

Producing Responsible Adults

There are, of course, schools of thought in academic child psychology that would find this line of reasoning reprehensible. The question to be posed for any such school is: does it lead the child to recognize that comfortable surroundings have to be maintained through conscious effort, or doesn't it? Does it produce responsible adults with the savvy to earn their livings and continue the wealth-building traditions of their families? Or has it produced lifelong quasi-adolescents, spendthrifts with no self-discipline and negligible personal assets, drowning in debt because they cannot manage their habits.

We must realize that generations are different, because the environments they grow up in are different. It is not enough to produce intellectual defenses of the free market, as important as these are. It is necessary to communicate this knowledge through object lessons that build up habits. And it is necessary to start when the children are very young. The feed-them-if-they-cry schools of thought simply have to go, if we are to avoid producing more generations of youthful socialists who assume everything is going to be handed to them.

How to encourage this kind of education is, to my mind, an unsolved problem for freedom thinkers today—particularly given that we are talking about what the scientist/philosopher Michael Polanyi once called "tacit knowing." This is knowing that comes through lived experience and the building up of habits, and that is therefore difficult to articulate as words

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and lectures: as Polanyi put it, "we know more than we can tell."* The Floyd of our parable knew how to prosper but did not or could not communicate this to his son. It is likely that at least some of what went wrong in the 1960s has its explanation here, along with the fascination socialism continues to have for many otherwise well-educated children of the American middle class.

The laws of wealth creation that enable free markets to create prosperity are not learned automatically. They are not acquired through cultural or even familial osmosis. Nor can they really be taught in the abstract, except perhaps in rare circumstances to students actively seeking them out. They must be learned in the context of doing—as a way of living in the world, and from early childhood on. Those who learn to do, will prosper. Those who don't, won't. □

*Michael Polanyi, *The Tacit Dimension* (New York: Doubleday-Anchor Books, 1967), p. 4.

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IDEAS ON LIBERTY
MAY 2000

Trust and Privacy on the Net

by Daniel B. Klein

With the growth of the Internet has come a lot of talk about privacy. In a recent cover story in *The Economist,* "The End of Privacy," the magazine warned that "threats to traditional notions of privacy will proliferate." It cites a survey showing that 80 percent of Americans worry about what happens to information collected about them.

The current debate over Internet privacy seems to prove that no blessing is without its detractors. Public issues should be built on systemic patterns of actual human troubles. In privacy skirmishes the only actual infringements ever cited are isolated or ephemeral. When the automobile became a widespread consumer product, did people fret over having something that could be broken into? They installed locks and eventually alarms, built garages and secure parking lots with fences and gates, and watched over them with video cameras. The need to secure their cars may have raised new problems for law enforcement, but certainly did not justify new regulation of the automobile industry or the security industry.

The average citizen does not find it worthwhile to inform himself about an issue when he can't affect policy. A pollster, it has been said, is someone who asks citizens what they think about something they don't think about. We can understand how the average survey respondent might fret over privacy as a way of flattering himself. We like to think we are so important that others want to talk about us.

That troubles of privacy and trustworthiness on the Net have *not* proven significant should not surprise us. In free markets consumers reward producers only when all their concerns are met. Profits go to the producers who are trustworthy and responsible, except in fleeting and atypical circumstances.

Suppose the consumer wants a reliable watch. That want carries with it several ancillary wants: The consumer wants to know where the watch is available; he wants to determine the claims made for the watch; he wants *assurance* that the claims can be trusted; he wants convenience in completing the purchase; he may want discreetness in how information about the purchase is used. The bundle of wants must all be addressed if the producer is to win the consumer's patronage and make a profit.

What are supermarkets, shopping malls, and established retailers if not ways of providing the ancillaries while relying on wholesalers for the primary want? The shopping mall gives the consumer free parking, security, pleasant surroundings, and brand-name assurance. The supermarket too is really an immense fair where hundreds of manufacturers sell their goods. Such places that serve both the primary and ancillary wants may be called *marketplaces.*

Each marketplace has to compete with other marketplaces. Safeway competes with

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Lucky's and to some extent with 7-Eleven. There is a whole field of marketplaces competing for consumers' dollars. It's really *a market for marketplaces*. The important point is that to succeed in the market for marketplaces, a marketplace must meet all the consumers' wants, not just the primary want.

Another type of marketplace is the Web site. Web sites also compete in the market for marketplaces. This manner of speaking may be confusing, but it underscores that assurance and privacy are just other things that consumers demand. Just as the demand for watches creates opportunities for entrepreneurs to profit by providing watches, the demand for assurance and privacy creates opportunities for entrepreneurs to profit by providing assurance and privacy. There is no more reason for government to regulate the production of those things than there is for it to regulate the production of watches.

Researchers have explored how producers provide assurance of quality and safety. The central mechanism is reputation, the general opinion of whether one's promises of quality and safety are trustworthy. Producers build reputation by a variety of means.

Firms seek repeat dealings so that satisfied customers gain confidence and return for more purchases. If the producer were to cheat customers, he would lose future purchases not only by that customer but also by others informed of the dissatisfying experience. Firms develop an array of services brought under the umbrella of brand names, logos, and trademarks, using their reputation to assure quality and safety.

Retailers build bridges of trust by becoming regular dealers between producers and consumers. Rite Aid and Safeway have a continuing relationship with pharmaceutical suppliers on one side and consumers on the other. Buying from a trusted middleman, like Safeway, assures the customer of quality and safety in goods from a supplier once removed. By serving as a middleman, Safeway makes the consumer's relationship with the ultimate manufacturer like the relationship we have with the friend of a friend.

Firms also seek seals of approval awarded by various organizations that evaluate quality and safety. Classic examples include Underwriters Laboratories, Moody's, AAA, and the Orthodox Union. Some evaluators work on the other side of the market. Consumers themselves turn to *Consumer Reports*, Zagat's, movie reviews, doctors, and so on to gain assurance of quality and safety.

The Overlooked Market

Nothing here should be startling. But a careful study of that intangible good, assurance, shows that the voluntary sector of society has developed many seemingly disparate ways of providing it. Unfamiliarity with these practices often leads people to overlook them altogether and to suppose that the only source of assurance is the tort system and government regulation. Scholarly research indicates that, in day-in-and-day-out commerce, the voluntary approach is by far the most important, and that tort and regulation are a distant second and third.

Traditional practices are of course extended to the Net. What is TRUSTe.org but a seal-of-approval organization paid to evaluate privacy policy and certify deserving Web sites to assure customers of responsible use of information? The auction site eBay is a complex approval giver: it registers users, manages interaction, insures some purchases, and certifies escrow providers for other purchases. Amazon is a giant middleman. Because we trust Amazon, we have a bridge to every smalltime publisher in its listing. Infomediaries might convert the ancillary want into the primary want and act as information handlers for consumers. There is no definitive method or approach to assurance and privacy, nor should there be. But we may predict that there will be remedies to the problems that trouble consumers enough that they are willing to pay to avoid them.

Experience in traditional markets offers other lessons for the Net. It should teach us the mischief that government regulation creates in the name of assuring quality and safety. Regulations like occupational licensing and those imposed by the Food and Drug Administration and Occupational Safety and Health Administration, despite what legitima-

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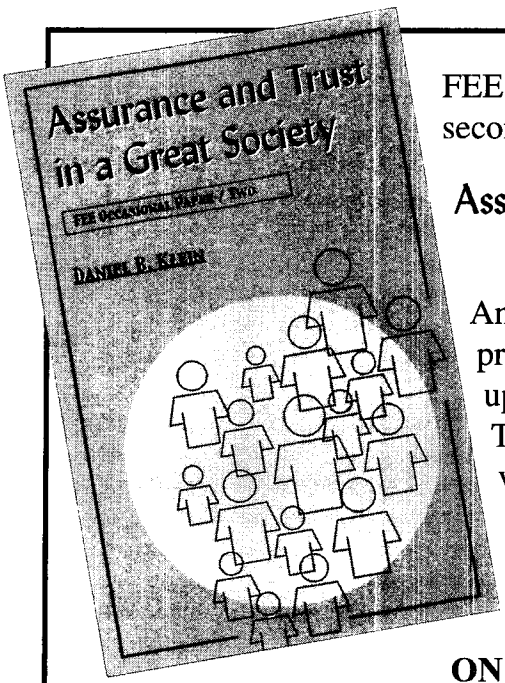
cy they may have with citizens and journalists, are a bane to all Americans. Scholarly research, especially by economists, clearly concludes that these regulations do more harm than good. The FDA is probably the worst. To illustrate this point I have gathered quotations from 13 economists who study the FDA and believe FDA power should be scaled back. I am not aware of any published defense or justification of the FDA by an economist—and I have gone looking for one.

Let us also learn from traditional markets something about supposed privacy violations. Some activists have attacked the credit-reporting industry for making up marketing lists. Actually, consumers' credit information is not disclosed to marketers. The marketers usually do not even see the list; instead, a third-party fulfillment house sees it and remains perfectly discreet. The privacy "violation" decried so indignantly amounts to nothing more than the nuisances of receiving junk mail. The issue is thus insignificant. Besides, mail is really a mailbox problem, which persists because the mailbox and delivery are not handled by free enterprise. The U.S. Postal Service fails to give customers the option of refusing unsolicited commercial mail at the most logical and convenient point: the point of delivery. It is unlikely that free-market mail delivery would continue to waste resources and the customers' time delivering unsolicited, unwanted commercial mail.

Finally, a note on the term "privacy." The prevalence of that term in these matters is unfortunate. In so many cases where it is used the issue would be more aptly discussed as one of *confidentiality* in transactions or in information shared in completing a transaction. Confidentiality is more clearly understood as a matter of agreement and understanding. That is what most of the Internet issues are really about. □



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MAY 2000

Government

The Census: Inquiring Minds Want to Know a Lot

What the federal bureaucracy calls "the largest peacetime mobilization effort in U.S. history" is now underway. It's the 2000 census—and if you're an American citizen, it's got a few questions for you. As many as 53, in fact.

America's founders felt it was important enough to know how many people lived in the country that they wrote a requirement for a census every ten years into the third paragraph of Article I, Section 2, of the Constitution. For the important purpose of apportioning representation in the House of Representatives, that passage specifies that the federal government, under the direction of the Congress, shall count the number of people—*period.*

The first census in 1790 included a question about race and residence, but that was about the sum of it. In the intervening 213 years, the census has morphed into much more than a head count. Indeed, it may now be the clearest index available of the growth and intrusiveness of the federal establishment.

In mid-March, a census "short form" was mailed to nearly every American. Its seven questions are designed to find out the recipient's name, age, sex, race, relationship to household, whether or not the recipient is Hispanic, and whether his housing is owned or rented. One in six households were mailed the "long form"—a 53-query marathon of nosy inquiries about everything from disabilities to employment to income. Answering the census is not an option; under the law, it's mandatory.

The folks who devised the long form are particularly interested in your house. They want to know how many rooms it has, when it was built, where you get your water, what your utilities cost, how you financed it, and how many cars, telephones, and bathrooms you've got. Other questions on the long form ask about your education, health, job, and ride to work (to find out if you drive a car or take a bus). To borrow a line from a famous tabloid ad, "inquiring minds want to know."

The more important question that cries out to be asked, however, is just *why* do these inquiring minds want to know all these things? Who and where you are is now a minor part of this decennial exercise; the census these days is much more about how to divide the loot. The U.S. Census Bureau isn't bashful about admitting this in its literature:

Census 2000 will be the information cornerstone for the next century. Billions of dollars of federal, state, and local funds will be spent on thousands of projects across our nation. How and where that money is spent depends on how accurate the census count is. . . . Twenty-two of the 25 largest Federal funding grant programs of fiscal year 1998 are responsible for $162 billion being distributed to state, local, and tribal governments, and about half of this money was distributed using

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formulas involving census population data, according to a report by the General Accounting Office. We expect that at least $182 billion will be distributed annually based on formulas using Census 2000 data.

Bureaucrats and central planner wannabes aren't the only folks who want to use the census to learn a lot about you. In between each count, the Census Bureau is besieged with requests from private interests who want to get their pet questions baked into the next one at taxpayer expense. Marketing and health research people want data on behavior and ailments. Internet service firms want to know who's wired and who isn't. Sociologists push to find out more about who's going to which church, and which individuals are providing support to their grandparents. Maybe we owe Congress and the bureaucracy a little appreciation for resisting most of the litany of requests and keeping their questions on the long form to a "mere" 53.

It all reminds me of the wisdom of Frederic Bastiat, the great French statesman and philosopher who wrote in his magnificent primer on the proper function of government, *The Law*: "As long as it is admitted that the law may be diverted from its true purpose—that it may violate property instead of protecting it—then everyone will want to participate in making the law, either to protect himself against plunder or to use it for plunder."

That a head count is no longer the primary focus of the census was dramatically illustrated by a proposal from the Clinton administration. In the run-up to the 2000 census, the administration announced it wanted to incorporate something called "statistical sampling" into the counting method. Instead of trying to count each person the government would count people in 90 percent of American households and then on the basis of those numbers, make guesses and assumptions about the remaining 10 percent. Because a Republican Congress figured a Democratic administration would make guesses and assumptions that would boost the electoral prospects of its friends, statistical sampling was on the ropes until the Supreme Court landed the final blow and killed it several months ago.

Perhaps the focus on extraneous information has cut into the very accuracy of the count that is supposed to be the main purpose of the census. By its own estimates, the Census Bureau missed 1.6 percent of the U.S. population in 1990—worse than its performance ten years before. The government misses millions of people, but it wants to dole out their money based on such details as how many bathrooms they have.

While Census Bureau Director Kenneth Prewitt says it's your "civic duty" to complete the 2000 census form, not everybody thinks so. The Libertarian Party captured some headlines when its national director, Steve Dasbach, declared in January, "Real Americans don't answer nosy Census questions. You can strike a blow for privacy, equality, and liberty by refusing to answer every question on the Census form except the one required by the Constitution: How many people live in your home?" Noting the real purpose of most of the long form's queries, Dasbach said, "Census information is used to forge the chains that bind Americans to failed government programs, meddlesome bureaucracies, and sky-high tax rates."

It's not happenstance that as the government's share of our income rises and its toll on our liberties grows, the census gets longer and more intrusive with each passing decade. It's part of the package: a government big enough to give you everything you want is big enough to take away everything you've got. To do all that for you and to you, it has to ask you lots and lots of questions. □

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IDEAS ON LIBERTY
MAY 2000

The Internet and the Death of the Sales Tax

by Richard W. Ault and David N. Laband

The editors of our hometown daily newspaper, the *Opelika-Auburn News*, recently came out in favor of taxing Internet commerce. While noting, incorrectly, that sales taxes constitute the "largest source of revenues at all levels of government," the editors forecast that Internet sales as a fraction of all sales "can only be expected to grow in the near future" and concluded by asking, "Who knows how much more sales tax revenue could be generated, particularly in about five or 10 years, from online sales? What is already a very healthy economy could become even stronger."

The notion that taxes help make an economy grow stronger is, of course, ludicrous. But the battle over Internet taxation is in full swing. Proponents argue that standard retail stores will lose business and be at a competitive disadvantage if they are taxed and e-commerce is not. This is indisputably correct. Opponents respond that taxation would restrict Internet sales and stunt the economy's growth. There is merit in this argument. In our view, however, what is really important is that in all likelihood, e-commerce will sound the death-knell on sales taxes as currently configured.

Although Wal-Mart is headquartered in Arkansas, patrons of their local Wal-Mart pay sales tax on their purchases at the rate established by the state in which they reside. The sales tax is collected at the point of purchase and paid by the retailer to the state government. Heretofore, the imposition of excise taxes had little influence on retailers' location decisions, because most customers would not find it worthwhile to drive to another state just to save a few cents per dollar in state sales taxes. But the Internet changes this situation dramatically—the retailer no longer has a fixed location, and it is not very costly for the consumer to observe merchandise locally but to purchase over the Internet. The consequences of Internet tax freedom are not hard to imagine. Consumers get a discount on goods bought from a virtual store over the Internet as compared to purchasing the exact same items in a real store. The size of this discount equals the sales tax rate prevailing in their state, minus shipping costs. This realized price/tax savings surely has played a major role in the explosive growth of e-commerce.

Some people believe that there is a natural limit to the proportion of sales (and therefore the lost tax revenues) that can be handled through e-commerce because of the expense or impracticality of shipping certain items and lack of customer access to the Internet. However, we are not convinced that either shipping costs or lack of Internet access will prove to be an impediment to growth in Internet sales. It is only a matter of time before items such as groceries, which are both perishable and expensive to ship relative to their value, will be offered over the Internet. In

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those states where groceries are subject to sales taxation, grocers will have a financial incentive to restructure the checkout. Customers at a particular store will place their orders over the Internet, and be instructed to pick up their merchandise at their current store. This solves the problem of customers wanting to inspect the merchandise firsthand without having to incur additional shipping costs, while permitting stores to offer customers significant price/tax savings. This also means that Internet shopping will not be limited to customers who have personal access to the Internet. Stores will provide access to all customers.

Vendors of heavily taxed items like gasoline will have an especially powerful incentive to structure sales through the Internet. Oil companies can sell coupons tax-free over the Internet that purchasers can redeem at any affiliated station. The implied tax savings to customers (and tax revenue losses to states) will be enormous.

Shriveling Revenues

But taxing e-commerce leads inexorably to the same result—shriveling sales tax revenues. Why? Because now that they can shop electronically, it is virtually costless for consumers to "flee" to low-tax states for their purchases; they no longer need to spend time and money transporting themselves physically to a lower tax state. Firms conducting e-commerce from states with relatively low sales tax rates on Internet commerce will have a competitive advantage over those conducting e-commerce from states with relatively high sales tax rates. Competition will induce profit-maximizing firms to migrate to low-tax states. This migration is virtually costless with the advent of the Internet. Wal-Mart can create an Internet sales location anywhere in the United States for a few dollars. Such migration implies that states with high sales tax rates will lose commerce and the associated tax revenues to low-tax states. Consequently, legislators in the former will find themselves under tremendous revenue pressure to reduce their sales tax rates to attract commerce back. In turn, of course, this puts tax-revenue pressure on other states, which then have financial incentive to lower their sales tax rates, and so on. The result of this process of hundreds of millions of consumers seeking out low taxes with their electronic feet is continuously falling sales tax rates across states.

The question is, can states maintain viable sales taxes at any tax rate greater than zero? It seems doubtful, for two reasons. First, states might attempt to enter into an agreement under which they would all agree to a common sales tax rate. However, as with any cartel, each state would have an incentive to "cheat" by lowering its rate in an effort to attract commerce with the associated tax revenues. Second, even if sales tax rates were uniform across states, consumers would be able to "migrate" to Internet locations based in Mexico, Jamaica, and a host of other foreign locations that, by definition, are not burdened with U.S. sales taxes. Competition between countries for tax revenues will result in lower tax rates on e-commerce everywhere. Duty-free shopping no longer will require you to travel to Barbados; it will be as easy as clicking a mouse in your home anywhere in the United States.

The development of Internet shopping provides consumers with extraordinary shopping mobility. This gives them an ability to avoid the taxman to a degree that heretofore was simply unimaginable, even to the tax authorities. This mobility will, in due course, render sales taxes incapable of being a reliable source of substantial tax revenues. We should not be wasting our time arguing over whether or not to tax e-commerce; the sales tax is dead either way. The coming battle will be over cuts in government spending versus alternative sources of state government revenues. □

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IDEAS ON LIBERTY
MAY 2000

Disaster Relief Then and Now

by Janet Sharp Hermann

The earthquake of October 17, 1989, had no sooner struck the San Francisco Bay Area than politicians began vying for television time to offer government assistance. Within a few hours, as reports of the damage were still coming in, the Lieutenant Governor of California publicly pledged the state's financial assistance to the victims. The next morning the President of the United States declared the affected region a disaster area, opening the way for federal assistance. At the same time the Vice President, touring the quake site, personally assured local officials of prompt implementation of the government relief program. Two days later the President himself appeared on the scene with similar promises. Soon volunteer lawyers were offering to assist victims in filling out complex forms that would bring immediate cash benefits. When disaster strikes, Americans automatically turn to government for relief.

This was not always the case. When the most severe earthquake in its recorded history struck the North American continent in 1811, victims living near the epicenter at New Madrid, Missouri, waited two years before even petitioning the government for assistance. The fledgling new nation that was the United States was expanding rapidly. By 1811 the flow of new settlers had penetrated beyond the Mississippi River well into Missouri Territory, which, as part of the Louisiana Purchase, had been opened to Yankee settlement just eight years earlier. However settlements were still sparse in the earthquake zone centered in the Mississippi Valley, where scattered small farms clustered around tiny villages such as New Madrid and Little Prairie in Missouri Territory.

At 2 a.m. on December 16, people up and down the mid-continent were jolted awake by the first shock of the great earthquake. Shaken from their beds, most fled their cabins as crockery crashed to the floor, precious glass windows shattered, and ridgepoles collapsed. In the village of Little Prairie, near the epicenter of the quake, screams of birds, animals, and people mingled with the rumble of the earth and the crashing of trees. Now and then there was a sharp crack as a crater suddenly opened in the earth spewing dust, rocks, and bits of coal shale mixed with sulphurous-smelling gas. Repeated shocks threw the frightened settlers to the ground, where in the dim glow they watched the earth undulate in waves two or three feet high, the largest of which broke open as fissures. In some places the ground was thrust upward in large domes while other areas sank several feet.

The most densely populated place in the quake zone that night was the Mississippi River, where clumsy flatboats and sleek keelboats anchored beside banks or islands. When the big quake came these small boats were tossed about like toys on the huge swells churned up by the moving earth. In some places large chunks of the river bank includ-

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ing tall trees crumbled into the water with a crash, crushing hapless boats anchored beneath and capsizing others nearby. Soon the river was thick with trees and debris from the shore mingled with old logs, brush, and mud thrown up from the bottom. From time to time a loud hiss signaled the eruption of an underwater crater that projected refuse 30 feet into the air. By morning light, survivors noted barrels of flour, tobacco, and whiskey floating along beside boat fragments and stray garments among the tangle of trees and brush. In some places entire islands had disappeared, and the course of the river was drastically altered.

Church Bells Rang

The December 16 shock was only the first of a seemingly endless series that eventually leveled manmade structures in the New Madrid vicinity and were felt over perhaps one million square miles. The quakes rang church bells, stopped pendulum clocks, moved furniture, and cracked pavements and plaster as far east as Charleston, South Carolina, and Richmond in Virginia. Residents in Detroit some 600 miles from the epicenter counted nine sharp shocks in the next three months, while an engineer in Louisville less than 200 miles from Little Prairie recorded 1,874 tremors of varying intensity in that time. One householder in Cincinnati who had rigged a pendulum in his front window claimed that it swung constantly through the winter and into the spring of 1812. Although there were fallen chimneys and cracked brick or stone walls from St. Louis in the north to Savannah and New Orleans in the south, the most severe damage was sustained in New Madrid County in southeastern Missouri Territory.

Modern scientists believe that the New Madrid earthquakes of 1811–12 probably had the highest magnitude and covered the widest area of any that have struck the North American continent in historic times. After an exhaustive examination of all available evidence, Otto W. Nuttli, a St. Louis University seismologist, estimated that the December 16 shock probably had a magnitude of 8.6 on the Richter scale, that of January 23 was nearer 8.4, and the final major quake of February 7 reached 8.7. By comparison the 1906 San Francisco earthquake, so costly in lives and property, was weaker than any of these with a Richter magnitude of 8.3, and the recent one was measured at only 6.9 or 7.

Despite the severity of the New Madrid quakes, no more than a dozen deaths were recorded and most of these were from drowning. The debris on the river that passed Natchez in subsequent weeks indicated that there were undoubtedly many unrecorded deaths on the Mississippi, but on land there was greater loss of property than of life. Settlers' cabins could be rebuilt, but many of their painstakingly cleared fields were badly fissured or covered with erupted rocks and shale. In a few cases bodies of water had been formed preventing cultivation of the affected land. Often the wells were dry and useless as a result of a shift in the water table, and the pond or stream that a farmer had counted on to supply his cattle might now be located on his neighbor's land. In the village of New Madrid, homeowners suffered most severely when the February shock caused the town to sink some 15 feet, resulting in severe flooding in the spring.

No Government Relief

There was no organized effort to assist these hard-pressed disaster victims either in their immediate needs for food and shelter or the long-term restoration of their property. As with any crisis on the frontier, those who were able aided their neighbors in a cooperative effort to rebuild. Psychiatric counseling, either government or private, was unknown in the early nineteenth century, but the psychological trauma of repeated quakes drove many who had spent little time in church to suddenly embrace religion. From informal prayer meetings as the ground shook to well-organized camp meetings the next spring and summer, these "earthquake Christians" joined in pious practices in unprecedented numbers.

With no mass media to publicize it, the plight of these frontiersmen was little known in the rest of the nation. The idea of seeking

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material aid from the government seems to have occurred to the victims only gradually. On Holy Thursday, March 26, 1812, while the Mississippi Valley still shook, an earthquake struck the city of Caracas in Venezuela, killing some 20,000 people, many of whom were crushed in churches as they worshipped. In an unusual gesture, the Congress of the United States appropriated $50,000 for Venezuelan relief. Some months later when delegates to the Missouri territorial assembly learned of this charitable gift, they decided that a similar gesture would be in order for their own people. So in January 1814, two years after the disaster, the assembly petitioned the U.S. Congress on behalf of "our unfortunate fellow citizens" of New Madrid County who were now "wandering around without a home to go to or a roof to shelter them from the pitiless storms." Noting congressional generosity to the Venezuelans, the Missourians felt sure that Congress would be "equally ready to extend relief to a portion of its own Citizens under similar circumstances," because "we ought never forget that what was their fate Yesterday, may be ours tomorrow." After another year's delay Congress approved a request that the New Madrid earthquake victims be compensated from public lands. Those whose property had been damaged could take their titles to the land office in St. Louis and receive in exchange certificates allowing them "to locate the like quantity of land on any of the public lands in said territory, the sale of which is authorized by law." No claimant was to receive less than 160 or more than 640 acres.

Even this tardy compensation proved to be ill conceived. Before the real victims learned of the passage of the bill, speculators swarmed into New Madrid County and bought up their ruined lands for a pittance. When these sharp dealers then exchanged the titles for valuable land around St. Louis or in the highly prized Boon's Lick region of central Missouri, some of the original owners filed suit for fraud. Over the next 20 years Congress passed three more acts, and various attorneys general supplied ten opinions all seeking unsuccessfully to clarify the relief law for the benefit of the earthquake victims. In 1845 the U.S. Supreme Court was still working on the legal tangle and the term "New Madrid claim" had become a synonym for fraud.

In nineteenth-century America even a feeble attempt by government to assist victims of a major disaster proved ineffective. However, the citizens of New Madrid County never expected any compensation. On the frontier in that era failure, whether from personal inadequacy or natural calamity, was a risk each settler took with no prospect of outside assistance. The people who built America lacked the security of a government cushion against failure whatever its cause. Neighborly assistance might mitigate an immediate crisis, but in the long run each person knew that his well-being depended solely on his own efforts. Although this self-reliance entailed some real suffering, there were compensations; for example, these men were free to enjoy all the fruits of their own success unimpeded by restrictive government regulation or crippling taxation. While removing the valleys of despair from failure, the government has also leveled the peaks of joy from success. □

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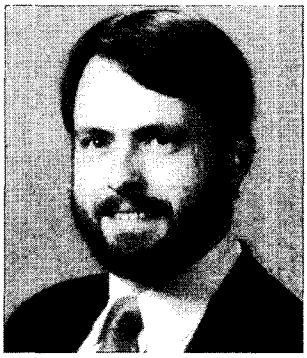

America in East Asia

The Cold War ended a decade ago, but America's defense posture has changed little, especially in East Asia. Washington policymakers seem determined to keep at least 100,000 military personnel in the region, apparently forever. Indeed, the administration is presently expanding America's military presence in East Asia.

It's time for a change. Rather than enhancing security ties when threats against the United States have dramatically diminished, Washington should initiate a phased withdrawal of American forces from the region.

U.S. taxpayers spent roughly $13 trillion (in current dollars) and sacrificed 113,000 lives (mostly in East Asian wars) to win the Cold War. For five decades Washington provided a defense shield behind which noncommunist countries throughout East Asia grew economically and democratically.

Japan is now the world's second-ranking economic power. Taiwan's dramatic jump from poverty to prosperity encouraged the leaders of the communist mainland to undertake fundamental economic reforms. South Korea dramatically outstrips communist North Korea on virtually every measure of national power. After years of failure, countries like Thailand have grown significantly (despite their recent setbacks).

At the same time, the environment has become more benign. The Soviet Union has disappeared, and a much weaker Russia has neither the capability nor the will for East Asian adventurism. In China, tough-minded communism has dissolved into a cynical excuse for incumbent officeholders to maintain power. So far Beijing's military renewal has been modest; its posture has been assertive rather than aggressive—although its saber-rattling toward Taiwan remains of concern.

Southeast Asia suffers from economic and political instability, but such problems threaten no one outside the immediate neighborhood. Only North Korea constitutes a genuine security threat, but that totalitarian state, though odious, is no replacement for the threat once posed by the Soviet Union.

Alas, so far neither the Clinton administration nor Congress seems to have noticed these changes. U.S. policy looks very much as it did during the Cold War. Washington's motto appears to be "what has ever been, must ever be."

The Pentagon's 1995 assessment of U.S. security policy in East Asia (the Nye Report) made the astonishing assertion that "the end of the Cold War has not diminished" the importance of any of America's regional security commitments. In November 1998 the Department of Defense (DOD) released an updated report that advanced the same outdated arguments. More than a year later U.S. policy remains the same. The administration's watchword, and that of the leading Republican presidential contenders, is simply more of everything.

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The administration's formal commitment to permanent, promiscuous intervention was preordained. Secretary of Defense William Cohen admitted: "When I first took over, I said everything is on the table for review, except we are going to keep 100,000 people in the Asia-Pacific region—that is off the table." In short, the Pentagon conducted a supposedly searching review that ignored the most important issue.

The Pentagon's 1998 report envisions an American security interest in virtually every East Asian country. Naturally, DOD lauds such traditional alliances as those with Japan and South Korea. It also endorses military ties with Laos and Mongolia, countries with no conceivable relevance to U.S. security.

The administration says the presence of U.S. troops is necessary only for "the foreseeable future." But if the end of the Cold War, the collapse of hegemonic communism, and the dramatic growth in the strength of friendly democratic and quasi-democratic states throughout the region aren't enough to warrant meaningful change, what would be enough?

The vague specter of instability has replaced the demon of communism as America's enemy. Even in the midst of economic crisis, however, Asia is not ready to plunge in the abyss. And if it were, there is little a few thousand U.S. troops in Okinawa or South Korea could do about it. The internal struggles that pose the most serious threat to regional stability are beyond the reach of America, unless Washington is prepared to repeat its Vietnam experience several times over.

As for the threats of real conflict—the two Koreas and China/Taiwan—America's allies are capable of maintaining military forces necessary to deter war. If that is a slightly less certain guarantee of stability, it is a far better one from America's standpoint. If deterrence failed, the United States would not find itself automatically involved.

Some analysts privately, and a few publicly, believe that Japan poses a potential threat to regional peace. But Tokyo has gained all the influence and wealth through peace that it had hoped to attain 60 years ago through war. Moreover, the lesson of World War II remains vivid there.

The weakness of the administration's case is evident from its bottom-scraping, kitchen-sink arguments that can best be characterized as silly. For instance, the Pentagon contends: "The presence of U.S. military personnel in the region multiplies our diplomatic impact through engagement with counterparts and the demonstration of professional military ethics and conduct in a democratic society." However, U.S. training programs did not prevent abuses by the Indonesian military in support of the brutal Suharto regime, and the American military worked closely with a series of ugly, military-dominated regimes in South Korea.

Instead of enshrining the status quo, the administration and Congress should phase out U.S. commitments and deployments. To start, Washington should tell Japan and South Korea that it is time for them to defend themselves. Moreover, Washington should make clear that it will not intervene in a war between Taipei and Beijing. America does not have sufficient interests at stake to risk conflict with nuclear-armed China.

Rather than attempting to upgrade defense relationships with nations like Australia and the Philippines, the United States should rely on informal consultations and intelligence sharing. In cases like Laos and Mongolia, Washington should leave private individuals to build cultural and economic links.

In short, Washington should step back as local parties take on responsibility for their own security. Real leadership entails refusing to take on problems that belong to someone else. □

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IDEAS ON LIBERTY
MAY 2000

Free Markets and "Highest Valued Use"

by Roy E. Cordato

Do free markets allocate resources to their highest valued use? It would seem that for the readers of *Ideas on Liberty*, the answer is a "no-brainer." Indeed, the idea that voluntary exchange channels resources to where the value of output will be greatest has traditionally been one of the foundational arguments for a free-market economy. It is the core reason why free markets are said to be "more efficient" than socialism or interventionism.

But although free markets are clearly superior to any other social or economic arrangement, it cannot be for this reason. The claim that markets channel resources to their highest valued use is inconsistent with the nature of value and of voluntary exchange. Ultimately, the question I posed cannot even be meaningfully asked.

The argument behind what I will call the "highest valued use" hypothesis is quite simple. If in a market setting, person A and person B each bid for resource X, that resource will go to the person whose bid is the highest. If A is the high bidder, it is then assumed that he valued the resource more than B and that this implies his use of the resource will be more "productive" than B's. "Productive" here means that A's use of the resource will lead to the production of those goods and services that will fetch the highest price and therefore that consumers will value most. Hence, free markets will channel resources to their highest valued use. When this process is interfered with, either through intervention in the exchange process or through direct government allocation of resources, the result is "misallocation"; resources are diverted to lesser valued uses or at least to uses whose value is not as high as it otherwise could be.

Embedded in this argument are three assumptions that cannot be logically sustained. The first assumption is that value is objective, which implies that it is measurable in money terms and therefore comparable person to person. The second assumption, involving perfect knowledge, is that A's and B's entrepreneurial insights about uses of resource X are accurate; that is, their perceptions of what others are willing to pay for goods are correct. The third is that there is an overarching hierarchy of social value on which the importance of resource use can be ranked.

Subjective Value

As for the first, a pillar of Austrian economics is "radical subjectivism." This is the idea that people's preferences are determined within their individual contexts. Value is subjective in the sense of its being an internal state that is immeasurable and not amenable to comparison (in the way that people's heights can be compared). It is inconsistent with this insight to say that A values resource

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X more highly than B does because he is willing to pay more for it. In reality, all that can be said is that resources will flow to those who are willing to pay the most money.

To go beyond this is to believe that value can be compared among persons and that money can be used for such comparisons. It is often assumed that all people value money equally, permitting money to be used as a stable measuring rod for everyone. In the example above, it would imply that the marginal utility of a dollar (the value placed on the last or next dollar obtained) is the same for both A and B. So if A bids two dollars and B bids one dollar, we can say A values resource X more than B. It's not that the statement is wrong, or that the marginal utility of a dollar is *not* equal for A and B, but that all such conclusions are meaningless: they compare the incomparable.

Perfect Information

The second unsustainable assumption is that market participants have perfect information. This is implied by the neoclassical premise that all exchanges are based on "perfectly competitive" prices.[1] That premise allows the analyst to skirt the subjective value problem, because in the world of perfect competition all market prices are accurate measurements of not only the (marginal) costs and benefits to the trading parties but also to society. As Israel Kirzner has noted, in neoclassical economics, supply-and-demand analysis assumes perfect knowledge for all market participants.[2] Under these circumstances, people bidding on resources know with certainty the value that others place on alternative uses of those resources. By definition, then, resources will flow to their highest valued use. In an error-free world, no other outcome is possible.

In the real world, though, there are no such assurances. As Austrian school economists are quick to point out, knowledge is never perfect. Considering that perfect information in a market would necessarily involve having knowledge of what actually exists and potentially exists in the minds of others, it should be clear that errors in bidding for resources are inevitable. But beyond this, all market activity takes place through time. Resources are bid for today based on expectations about the state of the world tomorrow. Knowledge, therefore, can never be perfect, and market prices are never "competitive" prices. When prices are not based on perfect knowledge, they do not measure the "social value" of the resources being exchanged, even within an approach to economics that accepts such a concept as meaningful.

Ultimately though, the concept of "social value" is not meaningful in the context of voluntary market exchange. The "highest valued use" hypothesis misconstrues the nature of the free market. This point goes to the heart of a distinction, made first by Ludwig von Mises and then F. A. Hayek, between an economy and a catallaxy. The hypothesis makes sense only for a unified hierarchy of ends; namely, an "economy." In an economy, Hayek wrote, "a given set of means is allocated in accordance with a unitary plan among competing ends according to their importance."[3] This is what happens in a firm, a household, a civic organization, or a socialist economic system, where priorities are established by a centralized decision-maker.

In contrast, as Hayek points out, "the market order serves no such single order of ends. . . . it serves the multiplicity of separate and incommensurable ends of all its separate members."[4] A catallaxy is thus characterized by the lack of a common hierarchy of ends, and so in the context of a free market, the concept of social value is meaningless, as is any talk of resources flowing to their highest valued use. A catallaxy cannot assure "that the more important comes before the less important," Hayek wrote, "for the simple reason that there can exist in such a system no single ordering of needs."[5]

Defending the Market

Fortunately, the case for liberty does not hinge on markets' being perfectly competitive or satisfying the efficiency criterion of neoclassical economics. While it is beyond the scope of this article to detail alternative defenses of free enterprise, it should be noted that Hayek's and Mises's advocacy of the mar-

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ket stem in large part from their observation that knowledge is never perfect and that free exchange is the best way to overcome that imperfection. As Kirzner noted, far from being necessary for the defense of capitalism, the assumption of perfect knowledge implies that markets are unnecessary.[6]

Can we say anything about the virtue of market allocation? Indeed we can. As Hayek emphasized, nothing prompts people to economize scarce resources as well as the market.[7] The profit motive encourages people to produce more with less. Moreover, nothing tops market exchange in tending to reconcile people's disparate plans. That's saying a lot.

In the final analysis, our advocacy of the free market has to be based on an overriding defense of liberty per se. Free enterprise is desirable because it is just, and it is just because it is the economic arrangement people tend to choose when they are free. □

1. This assumption is made by Ronald Coase in his famous 1960 article, "The Problem of Social Cost," *Journal of Law and Economics*, vol. 3, pp. 1–44, where he argues that voluntary exchanges that are made in the context of zero transactions costs and clearly defined property rights will ultimately lead to the maximization of the "social value of output."

2. For an excellent discussion of the problems associated with price formulation under assumptions of perfect competition, see Israel Kirzner, "The Law of Supply and Demand," *Ideas on Liberty*, January 2000, pp. 19–21.

3. F. A. Hayek, *Law, Legislation and Liberty*, vol. 2 (Chicago: University of Chicago Press, 1976), p. 107.

4. Ibid., pp. 107–108. See also James Buchanan, "What Should Economists Do?" in *What Should Economists Do?* (Indianapolis: Liberty Press) 1979, pp. 17–38.

5. Hayek, p. 113.

6. For discussions of market efficiency in the context of imperfect knowledge and subjective value, see Israel Kirzner, *Market Theory and the Price System* (Princeton, N.J.: D. Van Nostrand Co., 1963); Murray Rothbard, *A Reconstruction of Utility and Welfare Economics* (New York: Center for Libertarian Studies, 1977); and Roy E. Cordato, *Welfare Economics and Externalities in an Open Ended Universe* (Boston: Kluwer Academic Publishers, 1992).

7. Hayek, p. 113.

Next Month's *Ideas on Liberty:*

Our June issue features
Robert Poole on airport privatization,
Thomas DiLorenzo on trade and freedom,
William H. Peterson on the Golden Rule,
and much, much more.

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MAY 2000

A Breach of the Public Trust

by M. Reed Hopper

Few things in life are more uncertain than government regulation. Long-held understandings and settled expectations can literally change overnight in the fickle halls of officialdom. Consistent interpretations of federal law, relied on for years by the public, can abruptly change when federal agencies have a sudden change of heart about the scope or purpose of their authority, due to nothing more than the shifting policies of a new administration. Without the slightest change in the law, some federal agencies have taken it on themselves to redefine their regulatory role and push an agenda that is not only diametrically opposed to previous agency policy, but stands in direct violation of the law they are entrusted to enforce. This transparent attempt by grasping federal agencies to expand their power is becoming commonplace.

For example, the Food and Drug Administration (FDA) is authorized to regulate certain consumer products under the Food, Drug and Cosmetic Act. This authority does not extend to tobacco products, however. At least, that is what the FDA has said since 1914. For more than 80 years the FDA held to this interpretation because, among other reasons, Congress chose to regulate tobacco products directly through another law. Additionally, Congress has repeatedly refused to grant the FDA authority over tobacco products and the Food, Drug and Cosmetic Act itself does not specifically bestow on the FDA the power to regulate tobacco products. But in 1996, when it became popular to bash "Big Tobacco," the agency did a complete about-face. Without any change in its congressional mandate, the FDA now claims it has authority to regulate tobacco products. Even those who find smoking repugnant should fear a federal agency that presumptuously wrests power from Congress because of a subjective belief it can do a better job.*

Similarly, the Clean Water Act authorizes the Army Corps of Engineers to issue permits "for the discharge of dredged and fill material into navigable waters." In 1986 the Corps adopted regulations exempting from the permit requirement incidental soil movement (such as overflow from a bucket) occurring during normal dredging operations. The Corps stated in public documents that it did not have authority to regulate dredging, but only the discharge of dredged material. According to the Corps, this exemption for incidental soil movement was, therefore, required by the Act. But, in a sweetheart deal with environmental groups, the Corps reversed itself in 1993, claiming for the first time that the Act actually required the Corps to regulate the incidental movement of soil in U.S. waters. One federal court chastised the Corps for this absurd new rule stating that it would allow the Corps to regulate virtually

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* *Editor's note*: In March the Supreme Court ruled 5 to 4 that the FDA had no authority from Congress to regulate tobacco.

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any water-related activity from digging a drainage ditch to riding a bicycle through a puddle-sized "wetland."

Likewise, since 1934 the Taylor Grazing Act has authorized livestock grazing on the public range. For 60 years, in accordance with the Act, the Bureau of Land Management (BLM) consistently granted grazing permits only to applicants engaged in the livestock business and encouraged ranchers to invest in range improvements (such as fences and wells) that they would then own in partnership with the government. However, in 1995 the BLM decided to change the rules. Again, without any intervening change in the law, the Bureau decided to no longer grant grazing preferences to those in the livestock business, while range improvements built by private ranchers would be held henceforth only in the name of the United States. However one feels about public-grazing laws, every American should be outraged by government action that disrupts long-standing interpretations of federal law and reverses settled rights and expectations. If this could happen to one of us, it could happen to any of us.

Dangerous Trend

These incidents are symptomatic of an increasing, and dangerous, government trend to change the law—by "reinterpreting" statutory mandates—to satisfy the political agenda of those in power. It is a remarkable breach of the public trust. Not only do public officials who engage in such sophistry usurp the role of Congress to make the laws, but they become a law unto themselves. By their arbitrariness, these officials threaten our concept of ordered liberty. How can we know that the protections we enjoy under the law today will be there tomorrow? Citizens are left to conclude that the "rule of law" has no meaning and that rules and regulations are based on personal whim. It is time that public officials stand firm in their office as fair and objective enforcers of the law and stop bending in the winds of political expediency. And it is time that we start holding public officials accountable for such blatant abuses of power, for if we don't, we can expect to see a continuing erosion of our rights under the law. □

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La Lucha: The Human Cost of Economic Repression in Cuba

by Patricia Linderman

As I opened the gate of the high security fence around my yard in Havana, a black woman in her 30s glanced left and right and quickly wheeled her rusty Chinese bicycle inside. Her name was Marta, and she was wearing a pair of my shorts, which I had once traded her for a small watermelon. This time she had pineapples in the plastic milk crate attached behind the seat of her bike. I handed her a dollar for two pineapples, then poked my head out into the street to make sure the coast was clear before Marta pedaled away.

Luckily, there were no police officers stationed on the corner of my street that day. Although farmers and gardeners have been permitted since 1994 to sell excess produce, they must do so personally, in an approved market stall, paying high license fees and taxes. Marta's little enterprise, buying and reselling fruit, vegetables, and used clothing, put her into one of the Cuban government's most reviled categories: she was a "speculator." If caught, she would be charged a huge fine, maybe even sentenced to jail. Furthermore, the Cuban Ministry of Finance could confiscate everything she owned, without a hearing, for the crime of "profiteering."

Surely Marta's visits to my door had not escaped the notice of the neighborhood watch, the local Committee for the Defense of the Revolution. A few subtle gifts of clothing or scarce vegetables probably kept my neighbors quiet. But if Marta offended them in any way, or if they thought she was getting too rich or too friendly with foreigners like me, they could simply do their duty and turn her in. They had her, in fact, right where they wanted her.

I lived in Havana from 1995 to 1998, when my husband, a Foreign Service officer, was assigned to the U.S. Interests Section there. Since Cuba and the United States do not have formal diplomatic relations, the Interests Section is officially part of the Swiss Embassy. Yet it has its own large building on Havana's waterfront and carries out most of the usual functions of an embassy, including processing the 20,000 Cuban immigrants the United States takes in each year.

Political repression in Cuba is the subject of much international attention. Cuban elections are neither free nor fair. The media are controlled by the state and permit no alternative views; antennas and satellite dishes to bring in U.S. television are banned (although foreigners and tourist hotels may use them). Dissidents are regularly jailed on vague charges such as "dangerousness."

Yet during my time there, I found the Cubans' lack of economic freedom to be even more injurious to their dignity and aspirations than the denial of their political rights. The Cubans I knew were little preoccupied with obtaining forbidden reading material or joining dissident groups. Instead, economic restrictions forced them to spend each day

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scrounging to provide a level of subsistence for themselves and their families, often by illicit or illegal means. *La lucha*, the struggle, they called it—not a revolutionary or even counterrevolutionary struggle, but simply a struggle for survival.

It was all supposed to turn out differently, of course. After the 1959 Cuban Revolution, businesses and farms were nationalized, and housing, utilities, basic foods, and even entertainment were highly subsidized. Education and medical care were free. Salaries were low and their ranges narrow; workers were rewarded with better housing or a new Soviet-made car, rather than a raise. Eventually, material rewards would not be necessary at all, according to the Revolution's political philosopher, Che Guevara.

Yet this economic system was a house of cards, kept upright through generous trade arrangements with the Soviet Union amounting to a subsidy of some $6 billion per year. It collapsed when its patron did: Cuba's gross domestic product dropped by 35 percent between 1989 and 1993. The government declared a "Special Period in Peacetime," an economic state of emergency.

Power outages became more frequent. The government touted the island's "eco-consciousness" as gasoline supplies dwindled and bicycles replaced cars. Schools remained open, but without paper or pencils (students shouted back lessons recited by the teacher). Health care remained free, but medicine and supplies were scarce: hospital patients had to bring their own sheets, towels, soap, and food. As Havana residents scrambled to produce their own food, the plaintive crowing of roosters became a common sound in the city. "Why do they crow in the middle of the night?" I once complained to a local friend. "They're hungry," she explained.

Reina, a tiny woman hugely pregnant with her first baby, worked in a plant nursery. As I picked out some red hibiscus potted in rusty cans, she explained that expectant mothers received a voucher for cloth diapers, which were otherwise unavailable. The voucher could only be redeemed after the eighth month of pregnancy. Reina complained that her doctor was predicting a premature delivery, but the compañeros *wouldn't give her the diapers, since she hadn't yet completed her eighth month.*

The rationing system, which had covered about a quarter of family consumption before 1990, was expanded to nearly all basic goods. Cubans' ration books, or *libretas,* now promised them a few pounds of rice and dry beans a month, along with a few other foodstuffs and personal necessities that might or might not be available. Shoes, for example, were supposed to be rationed, but none arrived. Children were entitled to powdered milk only up to the age of seven. The elderly were given Cerelac, a concoction of dried milk and ground soybeans.

As the economy floundered, Cuba desperately needed new sources of hard currency. The promotion of tourism was stepped up, and hard-currency hotels, shops, and restaurants for foreign tourists began to appear. With their bright signs, fresh paint, and well-stocked shelves, they contrasted strikingly with the drab and barren facilities accepting Cuban pesos. Traveling throughout the island, one could apply this simple rule: if it looks good, it's not for Cubans. The Cuban Revolution had aimed for paradise and achieved, finally, paradox.

Trying to retain control over the flow of money, the government issued colorful "convertible peso" notes, worth exactly one U.S. dollar. Yet the greenback itself quickly became the currency of choice. In 1993, Cuban citizens were granted the right to hold dollars and shop in the tourist stores. The government hoped to gather black-market money into its own pockets and encourage the inflow of cash from family members in the United States. In fact, the latter has been estimated to be Cuba's single greatest source of hard currency, at more than $600 million a year. A government wall slogan reads: "*Hay que tener FE*"—"You've got to have FAITH." Cubans quip that FE really means "*Familia en el Exterior,*" family abroad.

Yet unfortunately for most Cubans, only some 15 percent of the population received dollars from abroad, and very few could earn

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hard currency in the course of their regular jobs. The vast majority were officially shut out of the expanding dollar economy.

A Cuban professional with a normal salary could not afford a cup of coffee at the Hotel Nacional, Havana's towering 1930s landmark. "It must be difficult," I once remarked lamely to a well-educated Cuban. "No," he said with sadness and disgust, "it is not difficult. It is inconceivable."

Meanwhile, the government resisted giving up its monopoly on employment, which it saw not only as an instrument of social leveling but as an effective means of control. In 1990, 95 percent of employed Cubans worked for the state; some 80 percent still do. The rest depend on the government as well, for their ration books, their housing, their children's educations, and even their right to stay out of prison—since nearly all Cubans are breaking the law in some way as they seek to provide for their families.

As the tourist industry and joint ventures with foreign companies flourished, direct hiring of Cuban workers remained forbidden. Labor contracts are handled by a government agency, which charges an average of $400 a month for each worker. In turn, the workers receive some 250 Cuban pesos monthly, or about $12.50, for an effective tax rate of nearly 97 percent.

In spite of the low salary, workers in tourist hotels and joint venture enterprises at least had the chance to receive dollar tips, extra payments under the table, or "bonus" baskets of scarce consumer goods. The country's incentive scale gradually turned upside down, with hotel maids and valets earning more than doctors, professors, and scientists. Unsurprisingly, university enrollment in Cuba has dropped by half since 1989.

After a prominent pediatrician treated my son at Havana's leading children's hospital, he invited me to follow his rattling little car to his nearby home, so I would know where to find him in case of an emergency. His apartment was in a four-story concrete-block building with open stairways and laundry fluttering outside glassless windows. He didn't even have his own phone; the number he gave me was that of a neighbor down the hall.

A Cuban acquaintance of ours estimated that each person needed about $30 a month, in addition to a peso salary, to procure basic necessities such as soap, toothpaste, and shoes. For many, the black market was the only answer. Cigars were stolen from factories and sold to tourists on the street. Bold black-marketeers rang my doorbell every day, trying to sell stolen bags of coffee or even industrial-sized rolls of lunch meat spirited out of a hotel kitchen.

Even worse, young Cubans quickly discovered the rewards of companionship with tourists. Around five each evening, women and girls start to line up along Havana's main roads in tight, colorful clothes. Many are daughters of professionals, or even professionals themselves. They see themselves not as prostitutes but simply women on the make, hoping for a decent dinner, a new outfit from a hotel shop, or perhaps, if they are lucky, the greatest prize of all: marriage to a foreigner and a ticket off the island.

On a hot afternoon, I went for a swim at the Hotel Comodoro. Tourists from Europe, Latin America, and Canada lounged by the sparkling pool. A can of Coca-Cola, imported through Mexico in defiance of the U.S. embargo, cost $1.50 at the pool bar. In front of me, an elderly foreign man bobbed in the water, smiling. Two Cuban girls, about 15 years old, floated beside him, whispering in his ears and kissing his sinewy neck.

In September 1993, the Cuban government reluctantly authorized self-employment in more than a hundred occupations, such as taxi driver, electrician, and artist. However, strict rules governed these new professions. The self-employed are strictly forbidden to hire others; only close relatives can assist them. University-educated professionals cannot sell services in their area of training. High monthly license fees are charged, whether or not the enterprise makes any money. The state also takes a large cut of any income received.

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Tiny in-home restaurants, called *paladares*, were authorized by the new rules, yet they can seat only 12 patrons at a time, may use only family members as cooks and waiters, and are forbidden to serve shrimp and lobster, which remain a government monopoly. Many quickly surpassed the state-run tourist restaurants in quality and value. Yet the closure rate remains high, since profits often don't cover the license fees, and crackdowns are common on those trying to get around the confining rules.

A Cuban-born colleague put us in touch with his uncle who still lived on the island. We invited the uncle, a professional actor, to a gathering at a paladar. *We were served a simple but satisfying meal of red snapper, rice, black beans, fried ripe plantains, and salad, finishing up with coconut flan and coffee. After talking animatedly over a beer, our guest polished off his dinner in silence. As we pulled out $50 to pay the bill for five people, amazement and embarrassment showed on his face. "This is like a dream, a dream of the old days," he said, tears shining in his eyes.*

The regime makes no secret of its reluctant toleration and suspicion of self-employment. Fidel Castro has likened it to "a cancer devouring the revolutionary spirit." In 1996, a sudden 300 percent jump in license costs and a 650 percent increase in fees led many to relinquish their permits; the total of registered self-employed dropped from over 200,000 to 170,000.

In 1994, however, the Cuban leadership realized that food shortages were threatening the regime's survival. By June, vegetables had practically disappeared from Havana's official markets, and the first open demonstrations and riots were taking place. The government announced that surplus agricultural products could be sold at farmers' markets, under highly controlled conditions, of course.

I stepped under the corrugated roof of the market in my neighborhood. Today there were shriveled green peppers, small onions, and a few piles of seasonal fruit. Off to one side, flies buzzed and circled over a worn wooden counter. Men in dirty aprons stood behind it, each with a single pig carcass. Farmers were required to sell their wares personally and pay high fees for the privilege. There were few buyers. The pork cost 20 pesos a pound. A sugar cane cutter in Cuba earned 107 pesos a month, a doctor about 400. I paid for five green peppers with a ten-peso note, the back of which depicted a sea of uplifted fists clutching machine guns. Tiny background lettering repeated "Patria o Muerte" *(Fatherland or Death). The woman selling the peppers would also happily accept U.S. dollars.*

For ideological reasons, Cuba refuses to implement further reforms that would unleash the economic vigor of its people. After a strongly worded address by Armed Forces leader and heir apparent Raúl Castro, the Fifth Communist Party Congress in 1997 rejected further liberalization. In a speech to the National Assembly in July 1998, Fidel Castro maintained: "The more contact I have with capitalism, the more revulsion it causes me."

Meanwhile, Cuba is again becoming a playground for foreign tourists, yet there are no wealthy or even middle-class Cubans this time around. There are simply the poor, who struggle to make ends meet and wait for things to change. After 41 years, many who dream of a better life can only imagine achieving it somewhere else.

As I left the market, I passed a man selling garlic. A four-foot strand of neatly braided bulbs was 20 pesos, or one dollar. "Where are you from?" grinned the gap-toothed, gray-whiskered vendor as I handed him a greenback. "United States," I answered warily, smiling in return. His grin widened. "Will you marry me?" he asked. □

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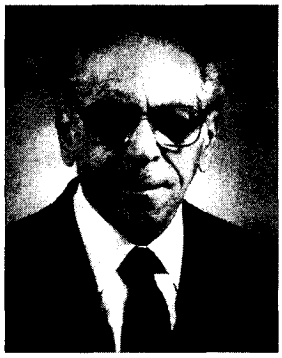

Remembering Masturbatory Insanity

"Every age has its peculiar folly; some scheme, project, or phantasy into which it plunges, spurred on either by the love of gain, the necessity of excitement, or the mere force of imitation."

—CHARLES MACKAY
Extraordinary Popular Delusions and the Madness of Crowds

The contemporary mental health movement—epitomized by the dogmatic belief that "mental illness is like any other illness"—is an instance of what Charles Mackay called a "crowd madness." It is in the very nature of such a popular delusion that, while it rages, it is impervious to criticism. The belief's overwhelming popularity and the absence of authoritative opposition to it are viewed as proof of its validity.

Long ago I became persuaded that it is not possible to understand modern psychiatric practices unless they are seen as manifestations of a popular madness; and that it is not possible to perceive them in such a light without being familiar with the history of psychiatry, which furnishes ample evidence to compromise its moral and scientific pretensions. In my January column—on Krafft-Ebing and the birth of sexology—I presented an illustrative episode from that history. Here, I shall briefly retell the story of what, until relatively recently, had been the most commonly diagnosed and most enthusiastically treated mental disease in the history of medicine, namely, masturbation.

Masturbation was—and, in principle, remains—the ideal mental illness. First, it is a form of *behavior*: that is, something people do, not something that happens to them. Second, it is a form of behavior universal to mankind, engaged in from early childhood*: this makes it ideally treatable, since behaviors can be controlled, especially in children who are powerless to resist the well-intentioned brutality of adults. Third, the act makes use of a sexual organ, ideally suited for attaching fantasies of great harm (as well as great pleasure) to its uses and abuses.

Not surprisingly, masturbation is a disease of modernity. In antiquity and the Dark Ages, people worried about real diseases, such as the plague and consumption. Only after the Enlightenment did people awaken to the possibilities of scientific medicine, assigning material (physical), rather than spiritual (religious), causes to disease, disability, and death.

Not having the faintest idea what caused most diseases, the medical mind went in search of a scapegoat and found it in self-abuse. By the end of the 1700s, it was medical dogma that masturbation caused blindness, epilepsy, gonorrhea, tabes dorsalis, priapism,

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*Actually, masturbation occurs in utero as well.

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constipation, conjunctivitis, acne, painful menstruation, nymphomania, impotence, consumption, anemia, and of course insanity, melancholia, and suicide.

How did physicians know and why did people believe that masturbation caused all these diseases? The same way that physicians now know and people believe that chemical imbalances cause mental diseases, such as attention deficit disorder: by "diagnosing" and "treating" the (involuntary, child) "patient" and by discovering "cures" for the disease. Among the widely accepted treatments of masturbation, the most important were restraining devices and mechanical appliances, circumcision, cautery of the genitals, clitoridectomy, and castration. As recently as 1936, a widely used pediatric textbook recommended some of these methods.

Who were the beneficiaries of these medical miracles? Children and the insane—then, as now, the two groups of ideal (involuntary) "patients." Powerless vis-à-vis their relatives and doctors, minors and mental patients could not resist being fitted with grotesque appliances, encased in plaster of Paris, having their genitalia cauterized or denervated, or being castrated—for their own good.

Error or Arrogance?

The contemporary reader is likely to dismiss masturbation-as-disease as a medical mistake. However, scientific errors, especially obvious ones, are usually soon detected and corrected.

Young males always experienced and displayed nocturnal emissions, the manifestations of normal pubertal male genital physiology. What, in the eighteenth century, made nocturnal emissions turn into the dreaded "symptoms" of dangerous "spermatorrhea"? The same thing that has turned youthful male exuberance into the dreaded symptoms of dangerous attention deficit disorder in our day: parental annoyance and anxiety combined with medical imperialism and *furor therapeuticus*. Today, diagnosing ADD and prescribing Ritalin are big business. A hundred years ago, it was big business to diagnose "spermatorrhea" and "treat" it with spike-lined rings. For a glimpse into this aspect of the medical-economics of the anti-masturbation business, the reader may consult the facsimile catalogue of the 1898 *American Armamentarium Chirurgicum*—which contains pictures and prices of many anti-masturbation devices.

Belief in masturbatory insanity and its treatment with castration and clitoridectomy was not an innocent error. This belief—like beliefs in other popular delusions—enhanced the identity and self-concept of the believers. Ostensibly, such beliefs assert facts; actually, they credential believers.

Henry Maudsley, the acknowledged founder of British psychiatry, stated: "The sooner he [the masturbator] sinks to his degraded rest, the better for the world which is well rid of him." For this and similar views he was hailed as a great humanitarian: A famed psychiatric institute in London is named after him. For Freud, too, sexual behaviors of all kinds, especially masturbation, were manifestations of maladies of which he was a master diagnostician and therapist.

As recently as 1938, Karl Menninger—the undisputed dean of American psychiatry in mid-century—declared: "In the unconscious mind, it [masturbation] *always* represents an aggression against someone." (Emphasis added.)

None of psychiatry's classic mistakes—from masturbatory insanity and its cures, to the disease of homosexuality and its compulsory treatment with "aversion therapy," and to the attribution of the cause of schizophrenia to reverberating circuits in the frontal lobes and its cure with lobotomy (rewarded with a Nobel Prize in Medicine)—are "innocent" errors. Invariably, the false belief and the medical interventions it appears to justify serves the needs of the believers, especially the relatives of "patients" who seek control over the misbehavior of their "loved ones," and the physicians who gain prestige and power by "diagnosing" and "treating" misbehavior as if it were disease.

We fool ourselves if we believe that psychiatry's current popular delusions—such as the chemical causes and cures of depression, schizophrenia, suicide, and so forth—do not fit the same mold. □

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The Cuyahoga Revisited

by Stacie Thomas

Early in the summer of 1969, the Cuyahoga River caught fire. Piles of logs, picnic benches, and other debris had collected below a railroad trestle, which impeded their movement down the river. These piles only lacked a spark to set them afire. A passing train with a broken wheel bearing probably provided that spark, igniting the debris that, in turn, lighted the kerosene-laden oil floating on top of the river.

The fire burned only 24 minutes—too short a time for the *Cleveland Plain Dealer* to catch a photo—and at first it attracted little attention. However, in the following months the fire became a symbol of a polluted America. It helped galvanize the environmental movement. Even today, the idea of the burning river remains a symbol of industrial neglect of the environment.

A few things have been ignored in the legend surrounding the Cuyahoga fire:

- The Cuyahoga, which flows through the city of Cleveland into Lake Erie, had caught fire at least two times before (in 1936 and 1952). The earlier fires burned much longer and caused much more damage.

- While oil on the river burned, most of the fuel was not industrial but, rather, logs, debris, and household waste washed downstream by the periodic storms that roil the deep, fast-moving river many miles above Cleveland.

- Most important for our understanding of environmental problems, the fire came about because political control replaced the emerging common-law rule of strict liability. Had that doctrine been allowed to hold sway, there would probably not have been a fire in 1969.

The industrial stretches of the Cuyahoga River were indeed polluted in 1969 and had been for many years. In the 1930s, for example, the people of Cleveland had clean drinking water from Lake Erie. So municipal authorities left the Cuyahoga River alone—allowing firms along its banks to discharge into it at will.

Not everyone was content with that policy. In some cases Cuyahoga water was too polluted even for industrial use. In 1936, a paper manufacturer on Kingsbury Run, a tributary of the Cuyahoga, sued the city of Cleveland to stop it from dumping raw sewage into the stream.

The city responded by saying that it had used the stream as a sewer since 1860 and that therefore it had a "prescriptive right" to use it that way. The Ohio court agreed with the city. It stated that when part of a stream "being wholly within a municipal corporation, so that none but its residents are thereby affected, is

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generally devoted to the purposes of an open sewer for more than 21 years . . . it becomes charged with a servitude authorizing its like use by other riparian owners" (*City of Cleveland v. Standard Bag & Paper Co.*).

So much for protection of riparian rights in 1936! However, that attitude changed rapidly. By 1948, the doctrine of strict liability was taking hold. Another Ohio court decision states that "one may not obtain by prescription, or otherwise than by purchase, a right to cast sewage upon the lands of another without his consent" (*Vian v. Sheffield*). Other rulings were similar.

Concern About Pollution

Incomes were rising, and concern about industrial wastes was mounting. Pollutants were corroding sewage treatment systems and impeding their operation. In another part of the state, the Ohio River Sanitation Commission, representing the eight states that border the Ohio River (which runs along Ohio's southern border), developed innovations to reduce pollution. The municipalities and the industries along the Ohio began to invest in pollution control technology.

Unfortunately, this progress soon ended. The evolving common law and regional compacts hit a snag in 1951 when the state of Ohio created the Ohio Water Pollution Control Board. The authorizing law sounded good to the citizens of Ohio. It stated that it is "unlawful" to pollute any Ohio waters. However, the law continues: "except in such cases where the water pollution control board has issued a valid and unexpired permit."

The board issued or denied permits depending on whether the discharger was located on an already-degraded river classified as "industrial use" or on trout streams classified as "recreational use." Trout streams were preserved; dischargers were allowed to pollute industrial streams. The growing tendency of the courts to insist on protecting private rights against harm from pollution was replaced by a public body that allowed pollution where it thought it was appropriate.

During the 1960s, attempts were made to revive the application of common-law rights to stop pollution of the Cuyahoga. Those complaints were redirected to the state or local agency in charge of managing water quality, with one exception. In 1965, Bar Realty Corporation sued the city and the board to compel them to enforce the city's pollution control ordinances against industrial polluters. The judge agreed, and directed the city and the board to stop pollution of the Cuyahoga. However, the Ohio Supreme Court overturned the ruling because Cleveland's ordinances were in conflict with state statutes. Management by permit continued to dominate other institutional arrangements on the Cuyahoga.

Cleveland Mayor Carl Stokes, who helped draw attention to the Cuyahoga fire, criticized the state for letting industries pollute. "We have no jurisdiction over what is dumped in there. . . . The state gives [industry] a license to pollute," the *Cleveland Plain Dealer* quoted him as saying (June 24, 1969). Stokes was not far off the mark. However, he thought the solution was to move to federal regulation rather than back to the guidance provided by court decisions.

The famous fire illustrates the unfortunate history of pollution control in the United States. Growing citizen concern about pollution was leading to voluntary cleanup, but the emerging common-law rule of strict liability was abandoned in favor of a political process that allowed continuing pollution of certain segments of the state's waters.

By catering to special interests, Ohio's regulatory scheme stopped the emergence of a doctrine that would have spurred cleanup. It also helped propel the nation toward national legislation and its costly technological specifications. The Clean Water Act of 1972 may have led to change on the Cuyahoga, but it also stifled innovation in pollution control and wasted vast sums of money, both industry's and the taxpayer's. (See Bruce Yandle, *Common Sense and Common Law for the Environment* [Lanham Md.: Rowman & Littlefield Publishers, 1997], pp. 76–77.)

In sum, the Cuyahoga fire, which burns on in people's memory as a symbol of industrial indifference, should also be viewed as a symbol of the weaknesses of public regulation. □

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The Starship *Private Enterprise*

by Timothy Sandefur

The television series *Star Trek* has inspired a whole generation of astronauts and space scientists. Its optimistic vision of humanity's future in space has been credited with the wide popularity of what has become one of the most successful entertainment franchises of all time. And social commentators have often found important cultural messages in *Star Trek*. In fact, libertarians have frequently argued the merits of *Star Trek*'s vision. While many are attracted to *Star Trek*'s emphasis on freedom, cooperation, and tolerance, others complain that it presents a bland, bureaucratic universe, where sleek government spaceships, not entrepreneurs, explore the great beyond. In an episode of *Star Trek: The Next Generation*, Captain Picard even explains to an alien that humans have "outgrown the need for material possessions."

This subject is more serious than it may seem at first. The privatization of America's space program is a hot topic today, especially since NASA's two recent Martian blunders. At a cost of some $14 billion a year, NASA has become a vast bureaucratic machine that has so far almost entirely prohibited competition from private space ventures. A law repealed only in 1998 forbade private companies to return anything—hardware, moon rocks, or passengers—to Earth from space. While the repeal of this law—and Congress's insistence that NASA consider privatizing the space shuttle—are steps in the right direction, much remains to be done.

NASA could learn from *Star Trek*: not from its bureaucratic vision, but from the methods that have made the franchise itself so successful.

While many entertainment companies jealously protect their creations through copyright law, Paramount Pictures' policy toward *Star Trek* has been somewhat different. Until recently, it has generally kept hands off, encouraging private individuals to write their own stories, start their own clubs—even make their own movies or write episodes for *Star Trek: The Next Generation, Voyager,* and *Deep Space Nine.* It has spurred the initiative of individual fans, and that is largely the cause of *Star Trek*'s vast success.

Law professor Dorothy Howell writes in her book *Intellectual Properties and the Protection of Fictional Characters,* "Fandom has played a major *creative* role in the evolution of the crew of the *Enterprise*."[1] Soon after the original series' cancellation in 1969, fans began writing their own stories involving the crew members and publishing them in amateur magazines called "fanzines." The popularity of the fanzines helped to keep *Star Trek* alive and to bring about the first movie in 1979. David Gerrold, who wrote the popular *Star Trek* episode "The Trouble with Tribbles," describes fanzines in his book *The World of Star Trek*:

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> A *fanzine*—look it up, it's in the dictionary—is an amateur magazine. . . . The fan publisher pays for it himself and generally edits it himself, too: all the articles and artwork are voluntary, and generally the fan sells just enough copies to other fans to break even on the whole thing. . . . Fanzines are probably the most important avenue of communication between fans.[2]

Rather than cracking down on fanzines, Paramount took an almost laissez-faire attitude toward them. (Some fanzines even featured sexually explicit stories about the *Enterprise* crew. As one fan put it in the recent documentary film *Trekkies*, "We thought that either Gene [Roddenberry, the show's creator] or the studio would put a stop to it, but the studio never really seemed to care."[3]) *Star Trek: The Next Generation, Deep Space Nine*, and *Voyager* are the only shows in Hollywood that accept unsolicited scripts from fans.

Star Trek's fans are an often-lampooned bunch, ranging from politicians and professors to obsessive teenagers. One teen-aged fan featured in *Trekkies*, Gabriel Koerner, showed how his local club had written their own *Star Trek*-based movie, complete with costumes and spectacular special-effects sequences that Koerner rendered on his home computer. The private *Star Trek* entrepreneurs were also responsible for the now frequent *Star Trek* conventions. Paramount Pictures didn't begin the conventions—but they haven't discouraged them either. As William Shatner (Captain Kirk) writes, in the 1970s "*Star Trek* parties began springing up on college campuses, where whole groups of *Trek*-nuts got together to watch the show and celebrate their fascination with the series."[4] Now conventions are monthly events, with thousands of participants and millions of dollars in sales.

Starfleet International, a club of about 4,000 *Star Trek* fans, with a vast Web site and its own newsletter, is another example of *Star Trek* activity. Like many other clubs, it's not officially licensed by Paramount. In fact, the studio sponsors only one official fan club—and it's not all that popular.

I asked one amateur Webmaster about Paramount's attitude toward fan-created clubs. He described how in 1996 Paramount's parent company, Viacom, tried to close down fan-created Web sites that competed with its official site. "Fortunately, they came to their senses, made their site free to all, and only went after those Webmasters that had blatantly distributed stolen property on the Web," he told me. "I *asked* for permission! Of course, I had to make a few changes to the site (disclaimers on every page and such), but that was a small price to pay to be allowed the freedom to continue using 'copyrighted' content. . . . Of course, Paramount has now realized the obvious: fan sites translate into free advertising!"[5]

Other fans complained that Paramount has recently changed its attitude toward *Star Trek* fans and consequently damaged the franchise. "There have been instances, especially and quite frankly only in recent years, that Paramount has made some mistakes in the treatment of the fan base," Koerner told me.[6] The studio began to take action not just against Webmasters, but also against some amateur theater productions and makers of prop replicas such as toy phasers. "It was not like this before, when fan replicas were a booming industry at conventions. Convention dealer tables have become less colorful and interesting as a result of Paramount's cracking down." In short, Paramount's recent change in attitude has had the worst results: "Not only has the mainstream audience basically drifted away from *Star Trek* completely, the fan base began to turn a bit sour with this."

It would be terrible if Paramount Pictures were to abandon its hands-off attitude toward fans. So far it has yielded a great deal. Radio shows about *Star Trek*, sea cruises with a *Star Trek* theme, and even a Las Vegas casino weren't devised by Paramount executives—but Paramount encouraged private enterprise to expand the popularity of the series until it had millions of fans on every continent. *Star Trek* the phenomenon is the result of decentralized planning and private decision-making. David Gerrold calls this the "Dandelion Effect" ("Blow on a dandelion. You'll see what I mean."): "*Organized* (you should pardon the expression) fandom touches about

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five thousand people in the United States. *Dis*organized fandom reaches a lot more. I make no guesses at the number, but every really *intense* fan is merely a nucleus at the core of ten or twenty other human beings, whose interest in science fiction is not quite so rabid, but who enjoy the contact with someone whose interest is."[7]

Lessons for NASA

NASA should learn from the Dandelion Effect. Organizations like the Space Frontier Foundation and ProSpace argue that exploration off the earth can't come from centralized planning, but only from entrepreneurial missions—from the free market. As the Space Frontier Foundation's Rick Tumlinson puts it, imagine that at the end of the Lewis and Clark expedition, the government had reserved the west for itself: "A new Waggonautics and Wildernautics Agency is created to manage the frontier. . . . Some 30 years after the original expedition a small but relatively high-tech cabin is reaching completion some hundred miles west of the Mississippi. Serviced by a completely self-sufficient giant Conestoga Shuttle, the cabin faces delay after delay as government priorities shift, and there is doubt as to if it will ever be ready for its first four Wildernauts."

After 30 years, NASA has become a bloated government program, using tax dollars to subsidize $150 million space shuttle launches, building $100 billion space stations (while private companies could do it for $70 million), and employing thousands of bureaucrats to do things not even slightly space-related—such as the 200-member office of the Inspector General, which costs $20 million per year to (ironically enough) prevent wasteful spending. NASA administrator Daniel Goldin recently embraced the idea of privatizing space exploration, saying that "As good as it is that you all have space in your hearts, it will only work and last if you also have money in your pockets. It is a business, and we must treat it like one in order to succeed."[8] But NASA also recently prohibited advertising on the surfaces of the space station. Advertising, of course, could bring in much-needed revenue. Pizza Hut recently paid the Russians over $1 million to paint their logo on a rocket.

Privatizing space is becoming a fashionable idea. Although some people believe that private industry can't finance the pure research of space exploration, the SETI program, which uses radio telescopes to listen constantly for signs of alien life, has been privately funded since 1994, and boasts only 15 percent overhead costs—far below NASA's. More abstract, "nonproductive," "pure research" can hardly be imagined! A group called the X-Prize Foundation is offering $10 million for the first privately built three-man rocket, and the 1988 ban on privately built re-entry vehicles has been lifted. In December, Spacehab Inc. announced plans for a privately built, privately owned module to be part of the space station. Appropriately enough, it's called "Enterprise."

Much remains to be done. *Star Trek*'s vision of futuristic bureaucracy is certainly unrealistic, as *Star Trek*'s own success testifies: the franchise has succeeded through decentralized marketing, not central planning. So can space exploration. □

1. Dorothy J. Howell, *Intellectual Properties and the Protection of Fictional Characters* (New York: Quorum Books, 1990), p. 23.
2. David Gerrold, *The World of Star Trek*, rev. ed. (New York: Bluejay Books, 1984), pp. 92–93.
3. *Trekkies* (Paramount Pictures Corp., 1999).
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5. Stephen Nispel, Webmaster, uss-argis.com, communication with the author, December 17, 1999.
6. Gabriel Koerner, letter to author, December 17, 1999.
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8. Remarks at Eighth Annual Space Frontier Foundation Conference, September 24, 1999, http://www.space-frontier.org/MEDIA_ROOM/OtherVoices/1999/19990924-goldin.html.

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IDEAS ON LIBERTY
MAY 2000

A Privatization Story

by Christopher W. Mayer

On July 28, 1998, shares of USEC, a global energy company, went on sale on the New York Stock Exchange in the company's initial public offering (IPO). This was no ordinary IPO, however. It was held under the 1996 USEC Privatization Act. The seller was the U.S. government.

Privatization is to be cheered by advocates of the market economy and those who seek to reduce the size and scope of government. In *Making Economic Sense*, Murray Rothbard wrote that "Privatization is a great and important good in itself." It represents the "reversal of the deadly socialist process" by returning productive resources to the market where they are more efficiently deployed. In short, privatizing USEC was a good idea.

But now, less than two years later, the company is asking for up to $200 million in relief from the government. USEC warns it could lose $200 million to $300 million over the next two years. The company's stock, which opened at $14.50 per share was trading around $4.63 at this writing.

What went wrong? Privatization would have been a good idea had the separation from government been more than skin deep. Alas, it was not.

In a market economy, the typical means for an entrepreneur to raise money for a new business or for expansion is to sell his idea to investors and creditors. Investors can be specialists like venture capitalists or investment banking firms, or everyday folks looking for a place to put some portion of their savings. Creditors can be commercial banks or commercial finance companies, or perhaps specialty bond underwriters. In any event, the means for raising funds is through the free and voluntary interaction of the marketplace.

Success is far from certain. Only investors or creditors who are willing to risk their money participate. The entrepreneur's idea may find few willing to take the risk, and he may have to pay a high price to acquire at least some of the money he wants. Or he may not find the money at all, in which case the market has rendered the verdict that the idea is not profitable or worth the risk at that time. To say the same thing a different way, the market (the investors and creditors) believes its resources are presently better used elsewhere where the risk/reward relationship is more favorable.

USEC, on the other hand, was not created in this fashion. Its initial capital represents an investment made by the U.S. government. The government's money was obtained through coercive levy: taxation. This is an important distinction from the typical market-based means of raising money. It allowed USEC to bypass the market test for raising capital and thereby to circumvent the will of the investors and creditors. USEC was born by government fiat, its reason for existence established inde-

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pendent of need and wants as expressed by buyers and sellers in the market. USEC was formed for political reasons.

Enriching Uranium

The company's roots go back many years, reaching into the 1940s when the U.S. government first began to enrich uranium. Uranium enrichment is, as the company's marketing literature notes, "a critical step in transforming natural uranium into nuclear fuel to produce electricity." In the 1950s U.S. plants supplied enriched uranium for nuclear weapons and nuclear submarines. All phases of the nuclear fuel cycle became privately owned in 1964—all except uranium enrichment.

More than an artificial creation of the U.S. government alone, the entire industry seems to owe its existence to governments around the world. A glance at the backing of some of the other major players in this industry reveals a thick tangle of government-run operations. Eurodif is a multinational corporation controlled by the French government. TENEX is controlled by the Russian government. Urenco is controlled by a consortium owned one-third by the British government, the Dutch government, and private German corporations. One wonders if any of these "businesses" would exist if not for the support of their governments.

Today, USEC is a world leader in the sale of uranium fuel enrichment services. USEC supplies over three-quarters of the U.S. market for those services and one-third of the world market. It operates the only such facility in the United States. To give some sense of its size, USEC generated sales of $1.5 billion during its fiscal year ending June 30, 1999, with a net income of $152 million.

The initial economic problems associated with a company created with conscripted capital seemed to be mitigated by the IPO. The company now faced the market test. Investors could bid the shares up or down to reflect their market value, and investors poured $1.9 billion into the government's coffers in exchange for USEC shares. However, the break was not so clean.

After privatization, the company's shareholders elected a board of directors, which in turn assembled its management team. For the most part, these were the same people who had been involved with the company before it went private, although some of the top people came out of the business world.

The company's management took some immediate steps that illustrate the market's drive for efficiency. It discontinued development of a uranium enrichment process called AVLIS, which uses lasers to separate uranium isotopes. It did so because "the returns were not sufficient to outweigh the risks and ongoing capital expenditures necessary to develop and construct an AVLIS plant." The $34.7 million cost to discontinue a project that began under the government's aegis included employee severance, shutdown, contract terminations, and other matters. This after the company had already invested $370 million over the previous three years. Of course, entrepreneurs make mistakes too. So that alone may not be enough to indict the government for its waste.

In addition to AVLIS, the company took $33 million in charges during fiscal year 1999 for employee severance and other worker reduction costs. It is uncertain how many workers the company has shed since its IPO. Again, that is what we might expect, given the government's reputation for turgid bureaucracy and rampant waste.

Considering that governments are often the worst polluters, we would expect that the company had problems in this area while under government ownership. In fact it did. A *Washington Post* investigation reported that "thousands of uranium workers were exposed to radioactive materials without their knowledge" (Martha Hamilton, "Uranium Company Seeks Federal Aid," October 30, 1999). The company does not dwell on this, saying only that it occurred in the 1950s through the 1980s while under government control and that matter "remain[s] the responsibility of the U.S. government." This is in accord with the Privatization Act. The company does tout its recent track record, including worker accident rates below industry average.

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Profitable Enterprise

Thus USEC management has been trying to transform what was once a government operation into a leaner commercial enterprise capable of making a profit. Indeed, in the 1999 annual report, president William H. Timbers, Jr., and board chairman James R. Mellor stated: "Our highest priorities this year included making substantial progress in transforming USEC into an investor-owned business that is commercial and profitable."

The real anchor around the company's neck is a 20-year contract entered into by the company's federal predecessor with the executive agent of the Russian Federation, TENEX, in 1993. The purpose of the "historic agreement" of which the contract was a part, said the *Washington Post,* was "to help rid the world of nuclear weapons." It called for the conversion of highly enriched uranium (HEU) from Soviet warheads to lowly enriched uranium (LEU), which is unsuitable for weapons. Under this program, the company has converted more than 3,000 Russian nuclear warheads into fuel. The company's literature notes that over 20 years, 500 metric tons of HEU will be diluted to about 15,000 metric tons of LEU. The lowly enriched uranium is shipped to USEC facilities in Ohio. Under the contract with TENEX, USEC purchases the enrichment portion of the blended-down material and sells it to its electric utility companies. USEC, acting as the U.S. government's executive agent, expects that the total enrichment portion to be bought will cost $8 billion.

USEC made money under this arrangement during the first few years when the price for LEU was higher than it is now. The company states that buying LEU from TENEX now costs much more than the cost of processing uranium in its own U.S. plants. Compounding this difficulty is that many of the company's contracts are expiring and being replaced with the new lower-priced LEU.

This agreement, born in the bowels of the federal bureaucracy, looks like a bad one in light of current market prices. Management predicts that because of this agreement and the falling price of LEU, the company will incur heavy losses over the next two years. Hence, it has gone back to the nest, so to speak, pleading for $200 million in federal aid.

USEC has warned that it may have to close one of its plants or walk away from its role as executive agent and break the contract. This has caused a stir in Congress, given the political importance of the accord and considering that an issue during the privatization process was how to keep the plants open and the 4,000 workers employed. The workers are represented by the Paper, Allied-Industrial Chemical, and Energy Workers International Union, which has been critical of the privatization for fear that one of the company's two plants would be closed.

Some observers disagree that the Russian contract indicts the political nature of USEC before privatization. Thomas Neff, a senior member of the Center for International Studies at MIT, said, "People do sign contracts with prices in them and sometimes it turns out later that they may not have been as smart as they thought they were, and that's too bad." Neff, however, was one of the architects of the TENEX deal. Moreover, the agreement was not signed in the free market, but rather was an agreement between governments for political ends.

What has made the situation worse for management's case for a subsidy is that USEC pays a relatively rich dividend, yielding more than 12 percent. This payout totaled $82.5 million in fiscal year 1999. In addition, the company has been aggressively repurchasing shares this year, to the tune of nearly $100 million. With all this money flowing out of the corporate treasury, why does the company need $200 million in relief?

Other problems plague USEC. The government built one of the company's plants near the New Madrid fault line. The company spent $21 million in fiscal year 1999 for seismic improvements and will spend an additional $20.5 million in 2000 to fortify the plant in the event of an earthquake—more waste and more evidence of a lack of reasonable foresight by government.

Further, the company is under a number of restrictions created as part of the privatization

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deal. For example, no one may hold more than 10 percent of the company's stock for three years after the IPO. This removes, or at least significantly mitigates, the threat of a corporate takeover, that is, the market for corporate management. The company is also restricted on the type and amount of asset sales it can conduct. Again, the company is handcuffed in meeting the market's demands and employing its assets efficiently.

Whether USEC will get its relief money is an open question. There are both supporters and detractors in Congress and the administration.

The USEC story captures in microcosm many of the things that are wrong with government efforts to run businesses. Intervention leads to more intervention and waste. USEC is attempting to fulfill two roles: profit-making enterprise and instrument of political aspirations. It cannot successfully do both. □

LEONARD E. READ

Leonard E. Read (1898–1983) founded FEE in 1946. He wrote more than two dozen books and hundreds of articles, delivered over one thousand lectures, and influenced countless individuals through FEE seminars and a prodigious correspondence.

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by Leonard E. Read

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Economics

Freedom of the Price

Last month I explained why our liberties will be steadily eroded without a genuine commitment to liberty in general.

Fortunately some liberties are widely recognized as crucial and have influential interests protecting them from political violation. An interesting example is freedom of speech—freedom against government censorship. Recent examples of the censorship of politically incorrect speech have occurred on, of all places, state college campuses, and too much of this censorship remains, even if unofficially, despite court decisions outlawing it. But the freedom to communicate in speech and writing is for the most part protected. If the government attempts to censor the news media (even in the name of national security) there is an immediate and powerful outcry from journalists. (Remember the Pentagon Papers.) We can be proud of our long tradition of freedom of the press and appreciative of the journalism profession for helping protect that freedom. At best, however, journalists deserve only two cheers for resisting censorship, since they not only condone, but often report sympathetically on, a very pernicious type of censorship.

As valuable as the communication of the news media is, it is less valuable than communication through market prices. As I have explained in earlier columns, the global cooperation that provides our wealth and protects our freedoms would be impossible without the information and motivation communicated through market prices. Yet governments routinely distort this communication with policies that force prices above or below what they would be in a free market. This price censorship violates our right of free expression as much as government's dictating the content of daily newspapers and TV news.

Minimum-wage laws censor unskilled youth who would like to communicate with potential employers: "I have few skills and college is not feasible, so I am willing to work for little now while I have few financial responsibilities to acquire the on-the-job training that will allow me to be more productive later." Agricultural price supports victimize all families by censoring the ability of farmers to communicate with them. Without that censorship dairy farmers, for example, would communicate that they are willing to make more milk available to children (and adults) by lowering milk prices. This censorship is particularly harmful to poor families because they devote a larger percentage of their budgets to basic foods than do wealthy families.

The censorship of rent control prevents people from communicating their desire for housing space through higher prices. The result is that people who would be willing to provide additional housing don't have adequate information on how valuable the housing is and little motivation to provide the right amount even if they did. Rather than helping the poor, who are supposedly the beneficiaries of rent control, the available housing space generally

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goes to well-connected nonpoor families; the poor end up with less housing than they would have been willing to pay for in an open market and are often relegated to the squalor of public housing. If journalists were as informed as they want us to believe, and as socially concerned as they claim, they would help the poor by attacking price censorship with the same fervor as they do press censorship.

Journalists can fill newspapers and news broadcasts with stories of jobless teenagers, write compellingly of the need to increase the availability of food to the nation's poor, and urge landlords to make more low-income housing available. But the effectiveness of this free expression is nil compared to the free expression that would allow lower wages, lower food prices, and higher housing prices.

I am not arguing that we should be complacent about low wages and farm incomes, or high rents. But we should recognize that low wages and incomes and high rents are only the symptoms of the problems that should concern us. Low wages inform us that productive skills are lacking; low farm incomes send a message that some farmers would create more value elsewhere in the economy; and high rents tell us that housing space should be expanded. We may not like the news communicated through market prices, but that is no reason for censoring it. No one would suggest that we censor news of natural disasters, political scandals, or outbreaks of disease. We may not like to hear such news, but suppressing it would reduce our ability to respond in ways that reduce the costs of such unfortunate events. Similarly, censoring price communication reduces the information and incentive needed to respond appropriately to the problems created when our efforts and resources are not being directed to their most urgent employments.

Harming the Poor

Some will object that the freedom of price communication puts those with few financial resources at a disadvantage. If this argument were correct, it would also be true that the traditional freedom of expression discriminates against those lacking education and the ability to express themselves. But no one is put at an absolute disadvantage by the freedom to communicate either through prices or words. Obviously those who are knowledgeable and articulate benefit from free speech, but can anyone believe that censoring verbal and written communication would help the ignorant and inarticulate? The best hope for acquiring knowledge and developing intellectual skills is through the free flow of spoken and written information. Similarly, the best hope for the poor is through the free flow of market communication, which informs them of their best opportunities, motivates them to increase their productivity by taking advantage of those opportunities, and keeps others responsive to their preferences and concerns.

No one would argue that price communication is always completely honest and accurate. But who is prepared to argue that distortions and misrepresentations are not easily found in newspapers, magazines, books, and TV and radio programs? Such imperfections can never be eliminated, but the most effective way of moderating them is not through censorship but through the competition of free expression, as any self-respecting journalist will quickly inform you. But any journalist informed enough to warrant self-respect should also recognize that the most effective way of moderating the imperfections in price communication is by allowing more competition in price communication, not by stifling that competition with price censorship.

Journalists should understand the importance of freedom in communication. And certainly no group is as quick to defend that freedom, or more articulate at making the case for it, than journalists. But if journalists were fully committed to freedom of communication, they would find price censorship just as abhorrent as press censorship. □

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IDEAS ON LIBERTY
MAY 2000

The Common Good Demystified

by Edward W. Younkins

The idea of the common good has been one of the most vague and most difficult concepts to clarify in the history of man. For many, the common good has primacy over persons and thus takes precedence over self-interest. Some even reify the abstract common good, acting as if it had an existence of its own. When the common good of society is looked on as something separate from and superior to the individual good of its members, there is a tendency for the common good to be interpreted as the good of the majority. In politics, economics, and culture, the term is frequently used when the speaker is encouraging others to make sacrifices. It is often evoked with reference to the poor and concern with equality and the distribution of wealth.

The expression is also often used by those who wish to impose their wills on others. Advocates of socialist schemes tell us that we must join in because all human beings have a moral obligation to serve the common good rather than their own desires. We are told that government must provide for the common good since individuals cannot be trusted to voluntarily sacrifice for it. Exhibiting a disrespect for persons, political authorities frequently dictate the course of action to be undertaken to achieve the common good and set standards to gauge the extent of its realization.

Edward Younkins is professor of accountancy and business administration at Wheeling Jesuit University, Wheeling, West Virginia.

Along with professors of philosophy, political science, and economics, I regularly participate in a senior seminar for the political and economic philosophy majors at my university. At one session, several faculty members and students engaged in a debate in which references were vaguely and frequently made to the common good. One student bravely asked a political philosophy professor to define what he meant. Stunned by the student's question, the professor exclaimed, "If you don't know what the common good is, then you haven't learned a damn thing during the last four years!" Sensing that no answer was forthcoming, I decided to jump in.

To discover what constitutes the common good, I said, it is necessary to determine what makes man what he is.

Man's distinctive nature is exhibited in his rational thinking, the process of abstraction and conceptualization, that is necessary for his survival and self-actualization. Reason is the faculty that perceives, identifies, and integrates the input received from the senses. His rational faculty sets him apart from all other living species. To live as a human being, man must think, act, and create the conditions that his life requires to survive and prosper.

Freedom, a fundamental personal and social good, is another natural requirement of man's existence. Each person has the ability to think his own thoughts and control his own energies in his efforts to act according to those thoughts. Men are rational beings with free wills, who have the ability to form their

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own purposes, aims, and intentions. If a man is to maintain his life and fulfill his potential, he must understand what's required for human survival and flourishing, face a multitude of choices and actions, and act in accordance with his rational conclusions. The right to liberty (and to life) is the right to engage in that process. Freedom is a necessary, but not a sufficient, condition for survival, moral well-being, and happiness.

The object of the right to liberty is to allow people to live life as they choose, as long as they do not aggress against the freedom of others. Individuals are free to act when they are free from coercion by other individuals, groups of people, or the government.

Whatever is alleged to be the common good must be good for everyone. Liberty fulfills this requirement, since self-directedness is good for every person. The common good rests not in what men do when they are free, but rather in the fact that they are free. It consists in treating each person as an end and never solely as a means. This simply means respecting the autonomy of each individual.

Freedom and self-directedness can be possessed by all persons simultaneously. Their commonness lies in their indivisible and nondiminishing availability to all members of the human community. Each person can possess those intangible goods without lessening another person's possession of them. Any number of people can experience them and each person can possess them in total.

In contrast, when socialists (of whatever variant) speak of the common good, they are often actually referring to what are really material goods divided up among various individuals. Today's welfare-state liberals use the term common good for rhetorical purposes when they advocate programs that distribute resources.

The Common Good Is Protected Individual Liberty

Each person has the right to protect himself against all forms of external aggression initiated by private individuals or by the state. The proper role of government is to protect the

freedom that allows individuals to pursue happiness or the good that each defines for himself. Government ensures the common good when its functions are restricted to protecting the natural right to liberty and maintaining peace and order. The necessity of self-direction provides a rationale for a political and legal order that will not require the autonomy of any individual to be sacrificed. Limited government only guarantees man the freedom to seek his own happiness as long as he does not trample the equivalent rights of others. A libertarian institutional framework is concerned with a person's outward conduct rather than with his virtuousness. A proper social system should not force a particular good on a man, nor should it force him to seek the good. It should only maintain the conditions that leave him free to seek it.

As I concluded my explanation, several students were nodding in agreement while the other professors sat in silence. Perhaps they were in awe of my uncommonly clear derivation of the common good. Or they might have been thinking, "Younkins, you've been teaching college for over half your life and you still haven't learned a damn thing!" □

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IDEAS ON LIBERTY
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It's About Power—Period

by Roger Clites

If we dig deep enough into any government program or policy, regardless of its stated aims, we will find that its basic purpose is the accumulation of power. We constantly allow ourselves to be flim-flammed by debates, compromises, or other distractions from this underlying point. By straying in any way from this truth we enable power-grabbers to encroach a little bit further into our liberty. That is the problem. They creep into additional power a little bit at a time.

Politicians always tell us that the cost will be small and the benefits will be large. That alone should alert us. TANSTAAFL. There ain't no such thing as a free lunch. The free lunch is their repeatedly used ploy. They sell whatever it is as something for nothing.

In reality, there is always a carrying charge. That carrying charge is described by most of their critics in terms of money. Of even greater significance than that loss of money is the loss of a little more liberty. Just as lost pennies add up to lost dollars, lost little bits of liberty add up to a major loss and eventually lead toward enslavement.

It is easy to list areas in which we have lost liberty. High on the list are loss of our children's minds to indoctrination by the educational establishment and loss of choice in medicines and other health care to such agencies as the Food and Drug Administration. We have also suffered eroded choice of service by the postal monopoly, lost transportation options because of the Interstate Commerce Commission, and limitations on speech by restrictions on contrived categories such as "commercial speech." The list could go on for pages. Actually, it is more difficult to list areas of our lives in which liberty has not been eroded.

Every one of those losses of liberty was promoted as something good that was being "given" to us.

It is bad enough that the promoters of infringements declare that they are acting for our benefit. But even those who see the damage they do often credit them with "good intentions." We must constantly expose these people for what they are: tyrants. They are seeking to lead us down what F.A. Hayek called *The Road to Serfdom*. They are not working in our best interest. They are, in every instance, seeking more power over us.

We must always focus on that. They will accuse us of being mean-spirited, say that our language is inflammatory, or use some other pejorative. When they do, we must insist that they address the subject of aggregation of power. We must constantly hold their feet to the fire. We must not deviate nor allow them to get away with a smoke screen.

It's about power—period. □

Roger Clites is a freelance writer.

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Is Greed Good?

"Unbridled avarice is not in the least the equivalent of capitalism, still less its 'spirit'."

—MAX WEBER[1]

Recently greed has become a popular term of endearment. There's even a TV game show by that name. In 1987, Oliver Stone released a popular movie called *Wall Street*, in which Gordon Gekko, the fictional dealmaker extraordinaire, declares, "Greed is good."

In the 1990s, as capitalism, technology, and the financial markets advanced, some free-market economists defended Gekko's speech, arguing that the pursuit of greed is beneficial and an integral feature of market capitalism. It motivates individuals to work harder, to create new and better products. As Bernard Mandeville wrote in *The Fable of the Bees* (1714), the private vices of greed, avarice, and luxury lead to abundant wealth.

On the other hand, critics of capitalism, from Thorstein Veblen to John Kenneth Galbraith, have long argued that capitalism unleashes greed, creating greater inequality, alienation, and deception in society. Capitalism is, in short, morally corrupting, both for the individual and business.

Which view is more accurate?

Part of the problem is in the definition of the word. If greed simply means enthusiastically pursuing one's self-interest, there is no harm in it and a great deal of good. Unfortunately, greed carries excessive baggage beyond honest initiative. Webster's Dictionary defines greed as "excessive desire for acquiring or having." A greedy person "wants to eat and drink too much" or "desires more than one needs or deserves." This conjures up passages of conspicuous consumption from Veblen's *Theory of the Leisure Class*, or scenes of the miserly banker foreclosing on the poor in Frank Capra's film *It's a Wonderful Life*. Is that what capitalism leads to?

Greed is no virtue in the financial markets. Too many inexperienced, gullible investors get caught up in the latest hot market, only to buy in at the top. As J. Paul Getty warns, "The big profits go to the intelligent, careful and patient investor, not to the reckless and overeager speculator."[2]

Montesquieu to the Rescue

In researching my forthcoming book, *The Making of Modern Economics* (M. E. Sharpe Publishers), I have uncovered several economic thinkers who make an important contribution to this issue. Charles de Mon-

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tesquieu (1689–1755) was the first major figure during the Enlightenment to maintain that commercial activity restrains greed and other passions. In his classic work, *The Spirit of the Laws* (1748), Montesquieu expressed the novel view that the business of moneymaking serves as a countervailing bridle against the violent passions of war and abusive political power. "Commerce cures destructive prejudices," he declared. "It polishes and softens barbarous mores. . . . The natural effect of commerce is to lead to peace."[3] Commerce improves society: "The spirit of commerce brings with it the spirit of frugality, of economy, of moderation, of work, of wisdom, of tranquility, of order, and of regularity."[4]

Adam Smith (1723–90) held similar views. He wrote eloquently of the public benefits of pursuing one's private self-interest, but he was no apologist for unbridled greed. Smith disapproved of private gain if it meant defrauding or deceiving someone in business. To quote Smith: "But man has almost constant occasion for the help of his brethren. . . . He will be more likely to prevail if he can interest their self-love in his favour. . . . Give me that which I want, and you shall have this which you want, is the meaning of every such offer."[5] In other words, all legitimate exchanges must benefit both the buyer and the seller, not one at the expense of the other. Smith's model of natural liberty reflects this essential attribute: "Every man, *as long as he does not violate the laws of justice*, is left perfectly free to pursue his own interest his own way, and to bring both his industry and capital into competition with those of any other man, or order of men."[6]

Smith favored enlightened self-interest and even self-restraint. Indeed, he firmly believed that a free commercial society moderated the passions and prevented a descent into a Hobbesian jungle, a theme echoing Montesquieu. He taught that commerce encourages people to defer gratification and to become educated, industrious, and self-disciplined. It is the fear of losing customers "which retrains his frauds and corrects his negligence."[7]

Finally, Smith supported social institutions—the competitive marketplace, religious communities, and the law—to foster self-control, self-discipline, and benevolence.[8]

In sum, no system can eliminate greed, fraud, or violence. Socialism and communitarian organizations promise paradise, but seldom deliver. Oddly enough, it may be a freely competitive capitalist economy that can best foster self-discipline and control of the passions. □

1. Quoted in Jerry Z. Muller, *Adam Smith in His Time and Ours* (Princeton, N.J.: Princeton University Press, 1993), p. 194.
2. J. Paul Getty, *How to Be Rich* (New York: Jove Books, 1965), p. 154. This book is required reading for all investors.
3. Charles de Montesquieu, *The Spirit of the Laws* (Cambridge: Cambridge University Press, 1989), p. 338.
4. Quoted in Albert O. Hirschman, *The Passions and the Interests* (Princeton, N.J.: Princeton University Press, 1997), p. 71. I highly recommend this book on pre-Smithian views of capitalism.
5. Adam Smith, *The Wealth of Nations* (New York: Modern Library, 1965), p. 14.
6. Ibid., p. 651. Italics added.
7. Ibid., p. 129.
8. Muller, p. 2.

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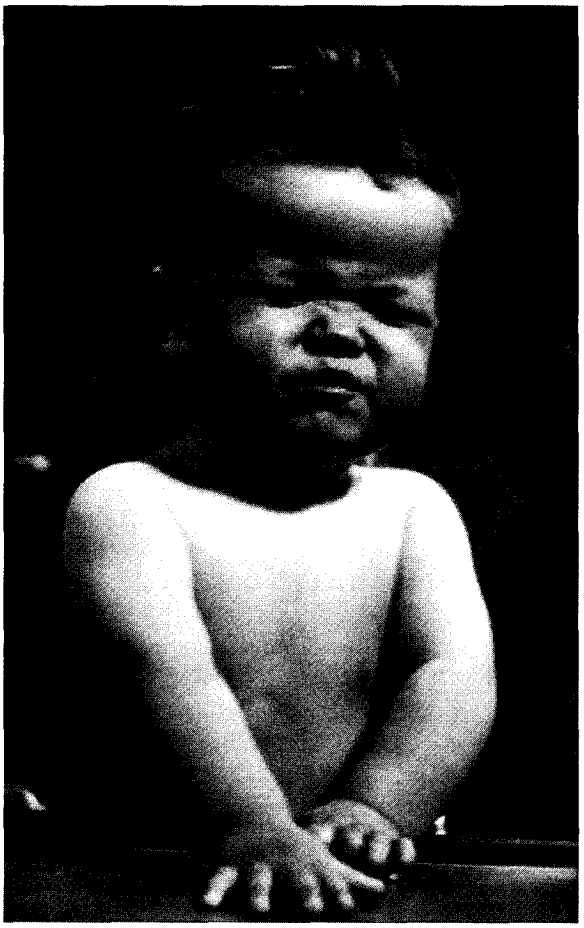

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BOOKS

Freedom in Chains: The Rise of the State and the Demise of the Citizen

by James Bovard

St. Martin's Press • 1999 • 326 pages • $26.95

Reviewed by Robert Batemarco

It has been said that one of the devil's favorite tricks is to make you think he does not exist. In *Freedom in Chains*, James Bovard shows how the cheerleaders for statism have spent the last two and a half centuries trying to persuade us that government coercion does not exist, or at least is unimportant. To the extent that they have succeeded, they have paved the way for wholesale expansion of that very object whose existence they deny.

The central theme of this book is that the idealist theory of the state, which depends on the concealment of government's coercive nature, has made the American republic something that would be unrecognizable to its Founders. They were so keenly aware of the clear and present danger of state coercion that they painstakingly sought to establish institutions designed to minimize it.

Freedom in Chains is proof positive that ideas have consequences. The author alternates between identifying the origins in political philosophy of the ideas that have corrupted the American experiment in limited government and providing numerous concrete examples of the unhappy results of such wayward thinking. The first culprit singled out is Jean Jacques Rousseau, who "effectively made self-delusion about the nature of government into the highest political virtue" by using the notion of the General Will to "prove" that any depredation visited on subjects by their government, no matter how egregious, was done with their consent. Bovard then shows how those ideas reached American shores by the late nineteenth and early twentieth centuries via Germany and England.

As the idea of the state's benevolence grew, more American thinkers came to see coercion as a small price to pay for the "blessings" it could bestow on us. Thus John Dewey was only slightly ahead of his time (1916) when he opined that "no ends are accomplished without the use of force. It is consequently no presumption against a measure, political, international, jural, economic, that it involves a use of force." Indeed, those sentiments today probably have the tacit support of the great majority of Americans.

Each chapter of this book is organized around an idea that has served as cover for the power grabs by the state. Prominent among them are democracy, fairness, sovereignty, equality, and pragmatism. Bovard's chapter on democracy is particularly well done. He takes on not democracy itself, but rather the extent to which democracy has been oversold as a protector of liberty. Democracy is merely a means to select leaders. Like government itself, "Democracy can be more noble for what it prevents than for what it achieves." Of far greater import to the health of our liberty are restrictions placed on what those leaders can do. As the author aptly puts it, "since there is no sure-fire method of choosing good rulers, the amount of power available to any ruler, good or bad, must be minimized."

To illustrate the consequences of the idealist theory of the state, Bovard produces a depressing parade of trampled rights ranging from the state-sanctioned murders of the Branch Davidians at Waco to killing with kindness those it has entrapped in its welfare system. Indeed, the litany of depredations at times makes the reader feel things are hopeless. But, if things were that hopeless, this book would not have been written; indeed it would not have been allowed to be written.

Bovard writes with an admirable passion for liberty. Occasionally, that passion leads him to overstate his case. For instance, he cites the fact that 6 percent of the entire U.S. population was arrested in 1996 as prima facie evidence of government perfidy. It would have been helpful had he broken down the arrests into those resulting from violations of the "traditional, accepted principles of justice" and those from running afoul of arbitrary edicts.

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As one might expect from a book that identifies the root of the problem as the glorification of the state, Bovard's solution begins with demystification and desanctification of the state. This requires that we call things by their right names, and Bovard does so with gusto. Thus he unmasks trade policy as the "arbitrary power to restrict Americans' freedom to buy from and sell to 96 percent of the world's population," labels the community service some states now require for a high school diploma "a Kiddie Draft," and characterizes the Motor-Voter Act as making "it a federal crime for state and local governments to be vigilant against voter fraud." Statism thrives on the use of language to manipulate people's thinking. Bovard fights back hard.

Freedom in Chains is a wonderful polemic aimed at alerting Americans that they are being duped into surrendering their freedom bit by bit to government. I recommend it enthusiastically. □

Robert Batemarco is a vice president of a marketing research firm in New York City and teaches economics at Marymount College in Tarrytown, New York.

The Pity of War

by Niall Ferguson

Basic Books • 1999 • 563 pages • $30.00

Reviewed by John V. Denson

Niall Ferguson is a history professor who taught at Cambridge and is now a tenured Oxford don. Those are the credentials of an establishment, or "court," historian, whose main purpose is to protect the patriotic and political myths of his government. Professor Ferguson, however, has written an iconoclastic attack on one of the most venerable patriotic myths of the British, namely that the First World War was a great and necessary war in which the British performed the noble act of intervening to protect Belgian neutrality, French freedom, and the empires of both the French and British from the military aggression of the hated Hun. Politicians like Lloyd George and Churchill argued that the war was not only necessary, but inevitable.

Ferguson asks and answers ten specific questions about the First World War, one of the most important being whether the war, with its total of more than nine million casualties, was worth it. Not only does he answer in the negative, but concludes that the *world* war was not necessary or inevitable, but was instead the result of grossly erroneous decisions of British political leaders based on an improper perception of the "threat" to the British Empire posed by Germany. Ferguson regards it as "nothing less than the greatest *error* in modern history."

He goes further and puts most of the blame on the British because it was the British government that ultimately decided to turn the continental war into a world war. He argues that the British had no legal obligation to protect Belgium or France and that the German naval build-up did not really menace the British.

British political leaders, Ferguson maintains, should have realized that the Germans were mostly fearful of being surrounded by the growing Russian industrial and military might, as well as the large French army. He argues further that the Kaiser would have honored his pledge to London, offered on the eve of the war, to guarantee French and Belgian territorial integrity in exchange for Britain's neutrality.

Ferguson concludes that "Britain's decision to intervene was the result of secret planning by her generals and diplomats, which dated back to 1905" and was based on a misreading of German intentions, "which were imagined to be Napoleonic in scale." Political calculations also played their part in bringing on war. Ferguson notes that Foreign Minister Edward Grey provided the leadership that put Britain on the bellicose path. Although a majority of the other ministers were hesitant, "In the end they agreed to support Grey, partly for fear of being turned out of office and letting in the Tories."

The First World War continues to disturb the British psyche today, much as the Civil War still haunts Americans. British casualties in the war numbered 723,000—more than

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twice the number suffered in World War II. The author writes that "The First World War remains the worst thing the people of my country have ever had to endure."

One of the most important costs of the war, which was prolonged by British and American participation, was the destruction of the Russian government. Ferguson contends that in the absence of British intervention, the most likely result would have been a quick German victory with some territorial concessions in the east, but no Bolshevik Revolution. There would have been no Lenin—and no Hitler either. "It was ultimately because of the war that both men were able to rise to establish barbaric despotisms which perpetrated still more mass murder."

Had the British stayed on the sidelines, Ferguson argues, their empire would still be strong and viable; instead, their participation and victory "effectively marked the end of British financial predominance in the world." He believes that the British could have easily coexisted with Germany, with which it had good relations before the war. But the British *victory* came at a price "far in excess of their gains" and "undid the first golden age of economic 'globalization.'"

World War I also led to a great loss of individual liberty. "Wartime Britain . . . became by stages a kind of police state," Ferguson writes. Of course, liberty is always a casualty of war and the author compares the British situation with the draconian measures imposed in America by President Wilson. The suppression of free speech in America "made a mockery of the Allied powers' claim to be fighting for freedom."

While the book is addressed mainly to a British audience, it is relevant to Americans who tragically followed the British into both world wars at a tremendous cost in freedom as a result of the centralization of power in the leviathan government in Washington, D.C. There are many valuable lessons to be learned from this timely and important book. □

John Denson is an attorney living in Opelika, Alabama, and the editor of The Costs of War.

First Principles: The Jurisprudence of Clarence Thomas

by Scott Douglas Gerber

New York University Press • 1999 • 280 pages • $30.00

Reviewed by Joerg W. Knipprath

The nomination of Clarence Thomas to the Supreme Court produced two confirmation "debates." The first, of interest primarily to lawyers and other Supreme Court watchers, included occasionally fascinating exchanges about natural law, its role in constitutional interpretation, and contemporary constitutional issues. The second was the sorry spectacle of tawdriness that arose from the leaking of Anita Hill's charges of sexual innuendo and off-color remarks by Thomas while he was her boss.

The fury of Thomas's opponents barely cooled after the hearings. The visceral hatred that many academics and other leftists had toward Thomas has carried over to commentary about his tenure on the Supreme Court. As quoted by Scott Douglas Gerber in *First Principles: The Jurisprudence of Clarence Thomas*, the typical analysis ranges from the apocalyptic (Nat Hentoff's "No new justice has ever before done so much damage so quickly") to the truly bizarre. An almost hilarious example of the latter is the late judge A. Leon Higginbotham's psychoanalysis of Justice Thomas in a law review article. Higginbotham characterized Thomas's views as "shameful" and concluded that they were produced by his "racial self-hatred."

These attitudes have poisoned the academy, as well, and have produced "research" on Justice Thomas that almost uniformly denigrates him and his work. In that regard, Gerber recounts an e-mail he received from a friend and fellow professor. This colleague warned Gerber that, unless his book was "very, very critical" of Thomas, Gerber's "career may be damaged by the Thomas curse!"

Gerber, both a lawyer and a political scientist, sets as his goal to write a dispassionate analysis of Thomas's early years on the Court. He succeeds admirably. The book is an engag-

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ing account that does not require of the reader an extensive background in constitutional law. Yet this is not dumbed-down "popular history." Gerber devotes only a small portion of the book to *nominee* Thomas. His objective there is primarily to explore Thomas's ideological roots and attitudes before the nomination and during the confirmation hearings, to help the reader understand *Justice* Thomas's views in his Supreme Court opinions. In a similar vein, Gerber in only a few mercifully brief passages refers to Anita Hill and then only to describe the reactions of, primarily, Thomas's political adversaries.

Gerber correctly identifies "federalism," the question of state-national relations, as a central issue in Justice Thomas's constitutionalism. His chapter on that topic is particularly well done. In a close examination of two significant cases, *U.S. Term Limits, Inc. v. Thornton*, and *U.S. v. Lopez*, Gerber succinctly presents the various opinions and lays out their textual and precedential foundations. In *Term Limits* the Court, by 5-4, held unconstitutional term limits placed by the people of Arkansas on their U.S. representatives and senators through a constitutional amendment. In *Lopez* the Court held the Gun-Free School Zones Act of 1990 to be an unconstitutional intrusion of the national commerce power into the reserved powers of the states.

Gerber concludes that Thomas's dissent supporting states' rights in *Term Limits* was incorrect, but that his concurring opinion supporting states' rights in *Lopez* was correct. He rests those conclusions on Madison's *Federalist* No. 39, which says that "in the sources from which the ordinary powers of government are drawn, [the central government] is partly federal and partly national." Using his yardstick of "liberal originalism," that is, interpreting the Constitution in light of certain influences outside its text (including the Declaration of Independence and the structure of federalism), Gerber believes that Justice Thomas's "compact theory" in *Term Limits* is wrong. I am not convinced that Gerber ultimately makes his case, but his analysis is superb.

Lopez is significant as the first case in two generations to declare unconstitutional under the commerce clause an act of Congress that targeted private behavior. Thomas used reinvigorated federalism in *Lopez* to protect individuals and states against an overbearing national police power. From a libertarian perspective, it is interesting to speculate what Justice Thomas might say about the constitutionality of gun control in a case shorn of states' rights considerations. He has given a tantalizing hint in *Printz v. U.S.*, a more recent case that struck down portions of the Brady Act, also on federalism grounds. Concurring in the decision, Justice Thomas pointed out that the Second Amendment might be read to confer a personal right to bear arms, which therefore might raise obstacles to the federal government's regulation of handguns. He approvingly quoted Justice Joseph Story's characterization of the right to bear arms as the "palladium of the liberties of a republic."

In sum, Gerber's book is a breath of fresh air, because it treats Justice Thomas and his work with respect and intellectual curiosity. What emerges is a picture of a Supreme Court justice who can be counted on more than most to protect *individual* rights in cases about affirmative action, political and commercial speech, property rights, free exercise of religion, and associational rights. □

Joerg Knipprath is professor of constitutional law at Southwestern University School of Law.

Beyond Unions and Collective Bargaining

by Leo Troy

M.E. Sharpe • 1999 • 256 pages • $60.95

Reviewed by George C. Leef

Labor unions are nonprofit businesses whose managers benefit to the extent that they can get workers to accept their representation services in exchange for the payment of dues. Supposedly—and there is some statistical evidence to support the claim—unionized workers enjoy higher earnings than nonunionized workers in comparable jobs. Unions also claim that they give workers greater job security, safety, and "voice." So why is it that

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for almost half a century, the percentage of workers who are not represented by labor unions has been increasing?

The salient fact is that the percentage of unionization among private-sector workers peaked in 1953, at 36 percent. Although unionization has rapidly grown among government workers since then (for the obvious reason that government agencies don't have to worry about competition or costs), private-sector unionization has been falling steadily. Now, only about one in ten workers has union representation. In his new book, *Beyond Unions and Collective Bargaining*, Rutgers University economics professor Leo Troy attempts to explain why.

His conclusion is simple: Most workers prefer self-representation. Yes, unions promise various benefits, but most workers have figured out that the benefits are dubious and the costs, both in dues and the possibility of job loss because of the well-known propensity of unions to make firms uncompetitive, are very real. The product the unions are selling—their services in negotiating and administering a collective labor contract—is one that many workers have come to see as unattractive or irrelevant. That is why the great organizing campaign announced with bravado by AFL-CIO President John Sweeney on taking office has had no discernible effect. Union numbers continue to slide. The customers just aren't buying.

A key reason why they aren't is that business managers have become, on the whole, far more sophisticated in their handling of workers than they were in the era of advancing unionism. The old managerial style that sometimes rivaled the Prussian army has given way to greater flexibility and attention to employees. While management at one time told workers to check their brains at the door, today managers seek ideas from workers. Union contracts and rules mean higher costs and lower efficiency for companies, and it should come as no surprise that they have discovered methods that keep workers content enough that they will say "No thanks" if union organizers come around.

The fact that many sectors of the American economy are now much more vigorously competitive than they were 50 years ago is also important in the ascendancy of individualism in labor relations. In highly regulated industries facing little foreign competition, the costs of unionization were readily passed on to consumers. But with global competition and, at least in some respects, a freer business environment today, a unionized company is like a runner in a race with lead shoes. Many old unionized companies have gone out of business or now operate as mere shadows of their former selves while non-union newcomers thrive. The steel industry is a good example.

Troy is not predicting extinction for unions and collective bargaining. He believes that there will remain a core of unionized firms that will comprise roughly 7 to 9 percent of the private-sector work force. But union talk of a big comeback is, he maintains, just puffery. Even if the unions managed to elect a friendly president and Congress and prevail on them to enact new labor laws designed to make organizing easier, Troy thinks there will be no union comeback. He points to Canada, where labor law is much more pro-union than here and unionization has been declining.

What are the implications of all this? Troy leaves that largely to his readers. Even if private-sector unionism vanished, organized labor would still be able to extract huge amounts of money from its government workers to finance political campaigns aimed at electing politicians who favor the further expansion of government. Statists like Lyndon Johnson used to depend on money largely taken from steelworkers and autoworkers. In the future, statists like Bill Clinton will depend largely on money taken from public-school teachers and government "service" workers. The interventionist damage done to the economy and the freedom of the individual by the union political agenda is not going to end just because private-sector unionism has reached what Troy calls its "twilight years."

Beyond Unions is worth reading for many reasons, not the least of them that it reaffirms an important truth: Human interests are better served by freedom than coercion. □

George Leef is the director of the Pope Center for Higher Education Policy at the John Locke Foundation and book review editor of Ideas on Liberty.

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Turbo-Capitalism: Winners and Losers in the Global Economy

by Edward Luttwak

HarperCollins Publishers • 1999 • 290 pages • $26.00

Reviewed by David L. Littmann

It's always tricky for a reviewer to judge a book written by a classmate. That's the case here. Edward Luttwak is a good writer, but has written a book that, while purporting to be about economics, is actually the stuff of worn sociology and tired psychology.

As the title, *Turbo-Capitalism*, indicates, Luttwak is aware of the economic power of market capitalism. He goes to great lengths describing the efficiency, wealth-creating track record, and possibilities of markets and their superiority over socialism and other government-directed economic systems. He clearly explains how capitalism's efficiencies and moneymaking benefits are changing the world.

But Luttwak doesn't stop there. This is just point one on the journey to lambaste the beast he identifies as "turbo-capitalism," a capitalism infused with technology, free trade, deregulation, and the most recent supercharger: privatization. Luttwak swoons over the "good-old days" when markets were constrained by punitive tax rates on the rich, redistributive social policies, and regulations covering nearly every industry, from transportation and energy to agriculture and communications. When government was there to constrain capitalists, greedy corporate executives, and unfettered entrepreneurship, consumers were protected, workers felt more secure and earned more, and families had a higher quality of life. Less stress, less crime, less pornography, Luttwak declares.

Alas, "turbo-capitalism" blows all that away, particularly in nations that haven't grown up with capitalism. Luttwak makes a hackneyed point followed by an interesting one. He argues that the new post-1970s strain of capitalism is extremely tough on most American families. Technical change, longer work weeks, greater competition from abroad, proliferating two-income households, sudden mass firings, repeated layoffs, and increased labor mobility with the added distance from loved ones it requires—all this creates crime and alienation. The same complaints have been heard and refuted over and over.

Yet he follows with the challenging point that two forces operate in the United States to avert wholesale revolt against the evil fallout of turbo-capitalism. First is the legal system, where two million lawsuits per year against U.S. companies deliver "empowerment" and bring restitution to the "economically victimized" among the population. Second is our Calvinist value system. He defines the Calvinist system by three interconnected rules: (1) winners (that is, the rich) diminish envy by self-restraint, giving to charity, and not overflaunting their wealth; (2) most losers blame only themselves for their fate; and (3) both winners and losers vent their frustrations by demanding harsh punishment for rebellious losers. Luttwak warns that other nations importing turbo-capitalism generally lack these institutionalized safeguards of societal stability and therefore risk being destabilized to the point of destruction if capitalism is not restrained.

At least this argument is new. I do not, however, find it persuasive because I don't accept Luttwak's premise that there is anything so frightful or "destabilizing" about economic liberty, no matter what label is attached to it.

At the heart of Luttwak's book is a populist theme that runs like this: Trial lawyers are to be applauded, because they are the tamers of greedy corporations. America's tax system is not nearly progressive (redistributive) enough. Free trade is an ideological plot by powerful firms to weaken unions, impoverish workers, and make them capitulate to management demands. Ditto deregulation. He claims that many airline pilots and mechanics today, after deregulation, can't afford to own a house or pay for a college education for their kids. Even if true, which is doubtful, others have benefited from deregulation and can now afford more for themselves and their families. What's the good in stifling competition just to keep earnings high for select groups of workers?

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Turbo-Capitalism is bound to confuse readers who were never exposed to economics. On the one hand, Luttwak does an excellent job of describing the costs of a labor contract in Europe versus the United States, thereby explaining Europe's astronomical unemployment rates. But he also claims that the U.S. economy is in a "surplus-of-everything" phase that causes low unemployment. For example, he finds it "unexpected" that a consequence of turbo-capitalism is low unemployment, but ascribes it to "cheap labor." He misses the fact that "titan" industries like steel and autos have been compelled to downsize by more agile, lower-cost, higher-quality producers. He never mentions that most of the employment downsizing he complains about has been accomplished by generous early retirement payouts, attrition through retirement, and the decision not to fill openings.

Luttwak does utter some important economic truths. For example, applying public choice theory to trade policy, he writes, "Nothing is more natural than the attempt of bureaucrats to find new justifications to keep their bureaucracies well funded." And regarding government intervention in markets, Luttwak recognizes that "virtually any form of industrial policy can easily become a further way of looting the public treasury, or exploiting hapless consumers, or both." Nevertheless, the author ignores that wisdom and endorses more government power to alleviate the supposed evils of turbo-capitalism.

Luttwak ends the book with this sentence, "Turbo-Capitalism, too, shall pass." Readers who hold time precious might consider taking a pass on *Turbo-Capitalism*. □

David Littmann is senior vice president and chief economist with Comerica Bank in Detroit, Michigan.

Development as Freedom

by Amartya Sen

Alfred Knopf • 1999 • 366 pages • $27.50

Reviewed by Victor A. Matheson

Amartya Sen, the winner of the 1998 Nobel Prize for Economics, has been called a "student of the world's miserable." Sen's research has concentrated on the economic problems that affect the world's poorest citizens: chronic hunger, famine, illiteracy, infant mortality, and disease. For the past 35 years, he has devoted his considerable scholarly talent to solving the problems of economic development in poor countries.

In his latest book, *Development as Freedom*, Sen defines development as "the enhancement of freedoms that allow people to lead lives that they have reason to value." He believes that economists have put a misplaced emphasis on GDP as the golden measure of development, and thus his definition goes far beyond that of simply maximizing per capita income. Sen argues that if increasing incomes in a country are not accompanied by other factors that define a high standard of living (such as political freedom, the availability of "social goods," including education, health care for all citizens, and protection from hunger and premature death) then the country is only getting richer. It is not truly "developing."

Though many economists assume that a high per capita income is a necessary prerequisite for these other forms of progress, Sen cites several examples that refute this assumption. One such exception is the Indian state of Kerala, which has a high life expectancy, low fertility, and low illiteracy compared to countries such as Brazil, South Africa, and Gabon, which are much richer economically. (Indeed the life expectancy of the citizens of Kerala exceeds that of African Americans despite a 20-fold difference in average incomes.)

Political, economic, and social freedoms are often complementary goods, Sen maintains. For example, expanding social freedoms by providing educational opportunities (especially among women) tends to increase income and reduce infant mortality. Similarly, economic freedom leads to faster income growth, which in turn provides the resources necessary for education, health care, and similar goods.

Perhaps the most interesting complementarity of freedoms Sen addresses relates to his well-known work on the relationship between famine and democracy. Although famines

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have occurred throughout history and remain common today, Sen documents that famine has never occurred in a functioning democracy. He reasons that freely elected governments cannot allow their own people to die en masse and expect to remain in office very long. Thus a democracy not only provides its citizens the freedom of political process but also offers a degree of security from the most destructive political bungling.

Sen's childhood memories of growing up in famine-stricken Bengal, India, have given him a strong sympathy for the plight of those in "grinding poverty," but he does not generally advocate a systematic transfer of income from rich to poor. Instead Sen focuses on providing the poor with the freedom to live rewarding lives. While this may entail public expenditures for education, health care, or emergency income security, he argues that one cannot live a fulfilling life accepting handouts. Alas, Sen evidently holds to the conventional belief that only government can be counted on to provide those benefits.

Although there are points to disagree with, free-market thinkers will find much to praise in this intelligent and thought-provoking book. □

Victor Matheson is an instructor of economics at Lake Forest College in Illinois.

In Plato's Cave

by Alvin Kernan

Yale University Press • 1999 • 336 pages • $25.00

Reviewed by Jack Sommer

Plato's Cave is a memoir—perhaps "reflection" is more in keeping with the title—of an Ivy Leaguer who has seen the elite of American universities in better times, and who has the skill to reveal this truth in the fullness of its tragic and its comedic phases.

Kernan, now retired from the university duties of an English professor and administrator at both Yale and Princeton, infuses a half-century of insights into higher education with wry and wise critique. He has avoided the bitterness that has become the false refuge of veterans of the culture wars even as he reveals the depths of lunacy of the postmodernist patter that has invaded the campus-present.

In one particularly insightful chapter Kernan manages with acidic humor to mock the deconstructivist diatribes of Paul de Man, Jacques Derrida, and Michel Foucault while acknowledging the mischief they have wrought within academe. Writes Kernan:

> Using language to do its daily business, the larger world thought it [deconstruction] all seemed obvious nonsense. Words point to things. But inside the academy, deconstruction's challenge of language—emphasizing its difficulties rather than its successes, its artificiality rather than its referentiality, its undecidability rather than its precision, its emptiness rather than its fullness, its falsity rather than its truth—had extraordinary effects. . . . Words, because they were empty, grounded in no reality other than themselves and other words, were said to be the means by which the wealthy and the powerful imposed their "hegemony" on others and made their self-serving ideology, their metaphysics, their world-picture, into "reality."

It is this nihilistic direction that has led, as Kernan avers, to the attack on classic core curricula by Marxists, "ethnics" of one stripe or another, and militant feminists who damn the "phallocratic" nature of the great works of Western thought because these are the product of a "hegemonic male culture." Moreover, "gay and lesbian rights groups saw in the traditional literature the suppression of sexual freedom and the concealment of homoerotic energies." Really. And all these years I thought it important just to let Plato be Plato!

This book is full of regrets about the capture of much of university discourse by the deconstructivist crowd. Kernan's perspective is particularly vivid because his self-described social realm is primarily in the humanities rather than the sciences, where such cant is consigned to cartoon files or is posted on bulletin boards. The predominant field of discourse at universities is probably not American Standard Post-Modern/PC/

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Deconstructivist gibberish, but the university culture is so averse to interpersonal criticism that much prattle at faculty lunch tables goes unchallenged. In a world where the bottom line is coherent action these paralogical utterances would be regarded as silly pretension and sure evidence of "the leisure of the theory class."

Kernan's work is also a valuable chronicle of the demise of authentic evaluation of student performance at all levels by faculty; the rise of plagiarism to ever-more sophisticated levels by students (and some faculty); the corruption of academic decision processes by interest-group pressure for special treatment in hiring, promotions, and tenure; and the squandering of institutional "reputational capital" by administrators who in better times might have been academic leaders. These ills may come as a surprise to alums who harbor an idyllic vision of college days gone by, but the importance of the critique will have been missed if it stirs none to inquire of dear old Alma Mater.

To whom should this book be recommended? Frankly, I think it is good reading even if it is littered with the names of the brilliant and famous who crossed the author's path. Such is the stuff of memoirs, and it is fun to find an old friend or two in the author's crosshairs. It is also a humorous insight into the private lives of academics, replete with Volkswagens, Volvos, false protestation of poverty (so as to be aligned with the "workers"), and overdrawn visions of self-importance. But the measure of the book is in its demonstration of a craftsman at the quill. Alvin Kernan is a splendid writer, and his subject will appeal to those who are interested in the university, past and present. The book may have some predictive value as well; it is a well-known phenomenon that what occurs at Yale, Princeton, and Harvard generally trickles down the academic pecking order. This, of course, may be well or ill. □

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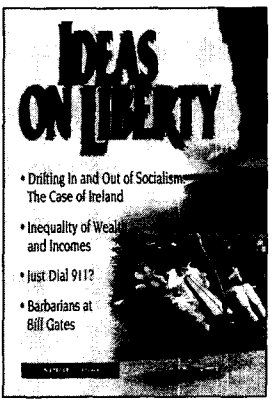
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MAY 2000

Pulling Us Apart

Recently, two Washington, D.C., think tanks—the Economic Policy Institute and the Center on Budget and Policy Priorities—issued a study of the income gap between rich and poor American families titled "Pulling Apart." According to the authors, by the late 1990s average income among families in the top 20 percent (top quintile) of the income distribution was $137,500, while that of families in the bottom quintile was only $13,000—a gap factor exceeding ten. In nine states the gap factor exceeded 11, and since the late 1970s the income gap had increased in 46 states.

The authors attribute the gaps to such factors as the growing importance of skilled labor relative to unskilled labor; the increasing value of higher education; the decline of low-skilled manufacturing employment; increased immigration; the stock market boom, which disproportionately benefits higher income people; and declining unionization. Except for the latter, all those factors have, indeed, affected the "distribution" of income.

The authors imply the gaps are unjust, and they propose remedies. "Through policies such as raising the minimum wage, strengthening unemployment insurance, implementing a wide range of supports for low-income working families, and reforming regressive state tax systems, state and federal lawmakers can help moderate the growing income divide."

There are at least three things wrong with this study. First, its authors have overstated the size of the gaps. Second, they ignore the fact that families and individuals move from quintile to quintile. Finally, gaps, no matter how large, if they are the result of voluntary exchange, are no cause for alarm. They are both desirable and just.

The authors based their work on pre-tax data from the Census Bureau's Current Population Survey (CPS). In September 1999 the Heritage Foundation published a study that shows that CPS data systematically overstate income gaps. For example, in 1997, according to CPS data, families in the top quintile received 49.4 percent of total household income, while those in the bottom received only 3.6 percent. When the data are corrected to take into account the effect of taxes, government subsidies, and capital gains, the two figures are 45.3 and 5.6 percent respectively. When the data are further adjusted to put an equal number of people, rather than families, in each quintile, the numbers are 39.7 and 9.4 percent, respectively. Therefore, all the gaps in "Pulling Apart" are exaggerated.

A quintile distribution of income is a snapshot of family income at a point in time. Suppose that the 1990 distribution indicates the top quintile received 50 percent and the bottom quintile 6 percent of total income, and that the 1999 distribution shows the same. This does not mean that the people in the bottom or top quintile in 1990 are still in the bot-

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tom or top quintile in 1999. Some people in the bottom in 1990 will have moved up to higher quintiles, even the top, by 1999. Similarly, some people in the top quintile in 1990 will have moved down to lower quintiles, even the bottom, by 1999. An unchanging quintile distribution is perfectly consistent with some poor getting richer and some rich getting poorer. A study reported by the Federal Reserve Bank of Dallas indicates that 29 percent of the families in the lowest quintile in 1975 had moved to the top quintile in 1991. Only 5.1 percent of those in the bottom in 1975 remained there in 1991. In a free-market economy there is constant movement. Quintile distributions themselves mean very little.

Hooray for Gaps

The very term "income distribution" implies that there is a given total lump of income that belongs to everybody that must be divided up by some authority. But in a market economy, income is created by voluntary exchange between people. Each individual owns the income he creates. The distribution (use) of his income is for him to decide. Abstracting from sheer luck, in an economy based on voluntary exchange there is only one way to create income: giving other people opportunities to make themselves better off by agreeing to exchange with you. It is desirable for those who serve others well to have higher incomes than those who don't, because those differences provide incentives for people to try to serve others as best they can. Widespread prosperity comes from widespread efforts to serve others well.

If you choose your occupation on the basis of what you like to do without regard to what other people are willing to pay you to do, you may end up happy but poor. I like to sing. But no one is willing to pay me to sing. So I talk and write for a living. If I chose to sing for a living I would be justly poor. My poverty would give me no legally enforceable moral claim to the incomes earned by other people. I would have chosen to be poor.

Some people choose to save and invest part of the income they create. In doing so, they provide the means for entrepreneurs to undertake new ventures, create new products, and provide new employment and purchase opportunities for people. Other people consume most of their incomes. Savers and investors are likely to accumulate assets that will generate more income for them than the spendthrifts will have. Yet spendthrifts have no legally enforceable moral claim on the incomes of savers and investors. The authors of the study may want to grant people who make poor choices an enforceable claim to the incomes of people who make better choices, but there are no moral grounds to do so. Of course, anyone is free to redistribute his own income, but no one has a moral right to redistribute incomes created by other people without their consent.

Whose Equality?

Jefferson proclaimed that it is "self-evident that all men are created equal." He meant that all people have the same natural rights and that a just government is one that enforces them equally for all people. It is also self-evident that all people are not created equal in terms of mental and physical abilities, alertness, attitudes, and other human attributes. In a market economy those natural differences inevitably result in different people creating different amounts of income and wealth. As Hayek pointed out, for government to impose an income distribution different from the one that emerges spontaneously in the market, government has to "treat unequal people unequally." Governments impose income distributions by taking from some people and giving to others. The victims of the takings are treated one way by government, and the recipients of the takings are treated another way. If a government wants to impose a more equal income distribution to mitigate the effects of natural human inequalities, it must discard Jefferson's principle that a just government must treat all people equally under the law. We have already gone far down that road, and it has already pulled us apart. The authors would have us go further. Like socialists around the world, they think there is never enough coercive redistribution. □

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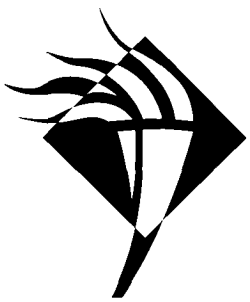

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"A new race of men is springing up to govern the nation; they are the hunters after popularity, men ambitious, not of the honor so much as of the profits of office—the demagogues, whose principles hang laxly upon them, and who follow not so much what is right as what leads to a temporary vulgar applause."

JOSEPH STORY (1779–1845), *Commentaries on the Constitution of the United States*, 1833

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